

City of Allegan
Allegan County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended June 30, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Allegan
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Allegan's (the City) financial performance provides a narrative overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net assets increased by \$550,644 (3 percent) as a result of this year's activities. Net assets of the governmental activities increased by \$396,141, while net assets of the business-type activities decreased by \$154,503.
- Of the \$21,601,707 total net assets reported, \$2,061,881 (10 percent) is unrestricted, or available to be used at the Council's discretion.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$1,747,571 which represents 51 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

The City's annual financial report is comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds and internal service funds, as well as additional information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City, reporting the City's operations in more detail than the government-wide financial statements.
 - Governmental fund statements explain how general government services, like public safety, were financed in the short-term, as well as what balance remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business, such as the sewer and water systems.
 - Fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

A comparative analysis of the basic financial statements for 2008 and 2007 is also presented.

Government-wide financial statements

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets (the difference between the City's assets and liabilities) is one way to measure the City's financial health, or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional nonfinancial factors such as changes in the City's property tax base and the condition of the City's capital assets.

The government-wide financial statements are divided into three categories:

- *Governmental activities* - Most of the City's basic services are included here, such as police protection, fire protection, library, and general government. Property taxes and state grants finance most of these activities.
- *Business-type activities* - The City charges fees to customers to help it cover the costs of certain services it provides. The City's sewer and water systems are reported here.
- *Component units* - The City includes two other entities in its report - the Downtown Development Authority and the Brownfield Development Authority. Although legally separate, these "component units" are important because the City is financially accountable for them.

Fund financial statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The City Council establishes other funds to control and manage money for particular purposes (like the Regent Theatre operations) or to show that it is properly using certain taxes and other revenues (like property taxes collected for the Library and motor fuel taxes collected for the street funds).

The City has three kinds of funds:

1. *Governmental funds*. Most of the City's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flow in and out and, (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship between them.

City of Allegan
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

2. *Proprietary funds.* Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
- In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
 - The City uses internal service funds (the other type of proprietary fund) to report activities that provide services for the City's other programs and activities. The City's internal service funds consist of an Equipment Fund and an Insurance Fund.
3. *Fiduciary funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The City's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. Total net assets at the end of the fiscal year were \$21,601,707, an increase of \$550,644 compared to the prior year. Of this total, \$15,126,060 is invested in capital assets, net of related debt and \$4,413,766 is restricted for various purposes. Consequently, unrestricted net assets were \$2,061,881 or 10 percent of the total.

Condensed financial information
Net Assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 6,252,819	\$ 6,569,744	\$ 759,173	\$ 1,052,830	\$ 7,011,992	\$ 7,622,574
Capital assets	<u>11,359,681</u>	<u>11,118,622</u>	<u>12,935,426</u>	<u>12,677,745</u>	<u>24,295,107</u>	<u>23,796,367</u>
Total assets	<u>17,612,500</u>	<u>17,688,366</u>	<u>13,694,599</u>	<u>13,730,575</u>	<u>31,307,099</u>	<u>31,418,941</u>
Long-term debt	5,199,132	5,746,512	3,969,915	4,190,000	9,169,047	9,936,512
Other liabilities	<u>364,131</u>	<u>288,758</u>	<u>172,214</u>	<u>142,608</u>	<u>536,345</u>	<u>431,366</u>
Total liabilities	<u>5,563,263</u>	<u>5,890,041</u>	<u>4,142,129</u>	<u>4,332,608</u>	<u>9,705,392</u>	<u>10,367,878</u>
Net assets:						
Invested in capital assets, net of related debt	6,160,549	5,394,198	8,965,511	8,553,833	15,126,060	13,948,031
Restricted	<u>4,256,387</u>	<u>4,233,742</u>	<u>157,379</u>	<u>152,056</u>	<u>4,413,766</u>	<u>4,385,798</u>
Unrestricted	<u>1,632,301</u>	<u>2,025,156</u>	<u>429,580</u>	<u>692,078</u>	<u>2,061,881</u>	<u>2,717,234</u>
Total net assets	<u>\$ 12,049,237</u>	<u>\$ 11,653,096</u>	<u>\$ 9,552,470</u>	<u>\$ 9,397,967</u>	<u>\$ 21,601,707</u>	<u>\$ 21,051,063</u>

City of Allegan
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (Continued)

Changes in net assets. The City's total revenues are \$7,898,575. Nearly 39 percent of the City's revenues come from property taxes and 38 percent come from charges for services.

The total cost of all the City's programs, covering a wide range of services, totaled \$7,347,931. Nearly 33 percent of the City's costs relate to the provision of utility services. Public safety costs account for 23 percent of the costs and general government costs account for 13 percent of the City's total costs.

Condensed financial information
Changes in Net Assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Program revenues:						
Charges for services	\$ 625,812	\$ 727,696	\$ 2,365,076	\$ 2,221,614	\$ 2,990,888	\$ 2,949,310
Operating grants and contributions	695,567	583,862	22,500	94,095	718,067	677,957
Capital grants and contributions	31,000	504,376	-	-	31,000	504,376
General revenues:						
Property taxes	3,074,267	2,988,671	-	-	3,074,267	2,988,671
State shared revenue	512,852	514,336	-	-	512,852	514,336
Unrestricted investment return	429,800	416,184	6,443	22,481	436,243	438,665
Miscellaneous	135,258	54,873	-	-	135,258	54,873
Total revenues	<u>5,504,556</u>	<u>5,789,998</u>	<u>2,394,019</u>	<u>2,338,190</u>	<u>7,898,575</u>	<u>8,128,188</u>
Expenses:						
Legislative	14,590	13,874	-	-	14,590	13,874
General government	919,282	858,990	-	-	919,282	858,990
Public safety	1,668,729	1,536,615	-	-	1,668,729	1,536,615
Public works	1,015,451	986,344	-	-	1,015,451	986,344
Community and economic development	2,237	17,030	-	-	2,237	17,030
Recreation and culture	1,187,461	1,106,849	-	-	1,187,461	1,106,849
Interest	141,877	234,691	-	-	141,877	234,691
Sewer	-	-	1,249,717	1,383,602	1,249,717	1,383,602
Water	-	-	1,148,587	1,158,050	1,148,587	1,158,050
Transfer	158,788	-	(158,788)	-	-	-
Special item	-	318,582	-	-	-	318,582
Total expenses	<u>5,108,415</u>	<u>5,072,975</u>	<u>2,239,516</u>	<u>2,541,652</u>	<u>7,347,931</u>	<u>7,614,627</u>
Increase (decrease) in net assets	<u>\$ 396,141</u>	<u>\$ 717,023</u>	<u>\$ 154,503</u>	<u>\$ (203,462)</u>	<u>\$ 550,644</u>	<u>\$ 513,561</u>

Governmental activities. Governmental activities increased the City's net assets by \$396,141 compared to a \$717,023 increase in the prior year. This year's increase was lower because total revenues decreased by more than \$285,000 while expenses increased by approximately \$35,000. Revenues decreased because the prior year included significant capital grants, in excess of \$500,000, that included one-time capital grants of approximately \$420,000 related to a street improvement project. The governmental activities also transferred \$158,788 to the business-type activities in the form of a capital contribution related to a street improvement project which decreased the net assets. Net assets increased in both years because revenues have been sufficient to cover the full cost of governmental operations.

The cost of all governmental activities this year was \$4,949,627. After subtracting the direct charges to those who directly benefited from the programs (\$625,812), and operating and capital grants (\$726,567), the "public benefit" portion covered by property taxes, state revenue sharing, and other general revenues was \$3,597,248.

Business-type activities. Business-type activities increased the City's net assets by \$154,503 in the current year compared to a \$203,462 decrease in the prior year. The increase in net assets in the current year was primarily the result of two items. First, utility billing rates were increased to generate an additional \$155,000 in operating revenues. Second, the \$158,788 capital asset contribution mentioned above increased the net assets in the current year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental funds. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,005,279, a decrease of \$241,430 in comparison with the prior year. Of the total fund balances, 47 percent constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) for future capital projects (\$3,007,621), (2) to generate income to pay for the perpetual care of the municipal cemetery (\$152,501), or (3) for specific Library expenditures (\$17,583).

The General Fund is the chief operating fund of the City. At the end of the fiscal year, unreserved fund balance was \$1,747,571, which represents 51 percent of the actual total General Fund expenditures for the current fiscal year. While revenues, primarily property taxes, increased by \$126,647, expenditures increased by \$294,081 causing the fund balance to decrease by \$4,985 in the current year. Significant expenditure increases occurred in three functional areas:

- Public safety expenditures increased by \$112,309 due in large part to an \$80,000 "catch-up" contribution to the City's defined benefit pension plan.
- Recreation and culture expenditures increased by \$81,907 because of an increase in personnel costs related to parks.
- Capital outlay expenditures increased by \$99,394 as the City spent nearly \$120,000 to improve the airport's runways.

The Capital Projects Fund experienced a decrease in fund balance of \$428,643 as all available resources were spent to complete capital projects in the current year. The fund is effectively closed at year-end as all capital projects were completed.

The Capital Asset Improvement Sinking Fund experienced an increase in fund balance in the amount of \$27,503 because investment earnings exceeded transfers to other funds in the current year.

City of Allegan
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Proprietary funds. The Sewer Fund experienced a decrease in net assets of 130,377 because billing rates are not currently set to cover the full cost of operations including the cost of depreciation of the wastewater treatment infrastructure. Total net assets are \$5,910,590 at year end and the fund has an unrestricted net asset deficit in the amount of \$23,232.

The Water Fund experienced an increase in net assets of \$284,880 due to an increase in the water usage rates and a capital contribution of \$113,420. Total net assets are \$3,641,880 at year end of which \$452,812 is unrestricted.

General Fund budgetary highlights

No adjustments were considered necessary during the current year as expenditures did not exceed the original appropriations. Actual expenditures were \$427,780 less than total budgeted expenditures. Significant expenditure variances occurred in two functions:

- Capital outlay expenditures were \$139,244 less than anticipated because costs were lower than expected.
- Public safety expenditures were \$135,424 less than planned because personnel costs were lower than anticipated and the City did not make a budgeted \$34,650 payment to the Water Fund for hydrant rentals as anticipated in the budget.

Revenues were \$13,093 more than anticipated while expenditures were \$427,780 less than the amounts appropriated. The net financing uses, interfund transfers, were \$185,314 less than anticipated. These variances resulted in a \$621,187 net positive budget variance and a \$4,985 decrease in fund balance compared to a budgeted decrease of \$626,172.

Capital assets and debt administration

Capital assets.

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounts to \$24,295,107 (net of accumulated depreciation). Governmental capital assets amount to \$11,359,681 and business-type capital assets totaled \$12,935,426. These investments include a broad range of assets including police and fire equipment, buildings, and sewer and water facilities. The net increase in the City's net investment in capital assets for the current fiscal year was \$498,740.

	<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>
Land	\$ 976,794	\$ 40,585	\$ 1,017,379
Infrastructure	3,726,864	12,894,841	16,621,705
Land improvements	4,128,010		4,128,010
Buildings and improvements	1,647,191	-	1,647,191
Furniture, equipment, and books	465,361	-	465,361
Vehicles	415,461	-	415,461
	<u>\$ 11,359,681</u>	<u>\$ 12,935,426</u>	<u>\$ 24,295,107</u>
Totals			

City of Allegan
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Capital assets and debt administration (Continued)

Major capital asset events during the current fiscal year included the following:

- Capital improvement projects to replace utility lines and resurface streets totaled \$636,740.
- Costs associated with the planned wastewater treatment plant improvements, amounting to \$517,475, were capitalized.
- Runway improvements were completed at a cost of \$119,677.
- Two trucks were purchased by the Equipment Fund for \$116,850.

More detailed information about the City's capital assets is presented in Note 5 of the notes to the basic financial statements.

Long-term debt.

At the end of the fiscal year, the City had total long-term bonds and notes outstanding in the amount of \$9,169,047 which represents a decrease of \$767,465 or 8 percent. Of this amount, \$8,514,047 comprises debt backed by the full faith and credit of the City. Another \$655,000 represents bonds secured solely by specific revenue sources (i.e., revenue bonds).

Other long-term debt obligations totaling \$139,837 represent accrued compensated absences.

More detailed information about the City's long-term liabilities is presented in Note 8 of the notes to the basic financial statements.

Economic condition and outlook

The City of Allegan (2000 Census Population 4,838) is centrally located between Kalamazoo, Grand Rapids, and Holland, within Allegan County.

The City is seeing an increase in commercial building permits, with projects in the Highland Business Park and Eastern Avenue. The increase in building permits will increase the City's taxable value and should increase property tax revenue in the future.

Recently, the City increased both sanitary sewer and water rates to stabilize fund balances, reinvest in a major waste water treatment plant, and provide various improvements to the water treatment plant.

The City carefully monitors both revenue and expenditures on a regular basis in order to maintain an operational budget as well as to invest in capital projects. Further, the City has prepared a three-year capital improvement plan which projects continued capital investment in streets and equipment. In addition, the plan provides an operationally balanced budget with appropriate reserves.

Contacting the City's financial management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Robert Hillard, Manager
City of Allegan
112 Locust Street
Allegan, MI 49010-1390

Phone: (269) 673-5511
E-mail: RHillard@cityofallegan.org

INDEPENDENT AUDITORS' REPORT

**City Council
City of Allegan, Michigan**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely-presented component units, each major fund, and the aggregate remaining fund information of the City of Allegan, Michigan, as of June 30, 2008, and for the year then ended, which collectively comprise the City of Allegan, Michigan's financial statements, as listed in the contents. These financial statements are the responsibility of the City of Allegan, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely-presented component units, each major fund, and the aggregate remaining fund information of the City of Allegan, Michigan, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis, budgetary comparison schedules, and the schedule of funding progress of the employee retirement system, as listed in the contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Allegan, Michigan's basic financial statements. The supplementary information and supplementary data, as listed in the contents, are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information designated as "Securities and Exchange Commission Rule 15c2-12 Continuing Disclosure" in the contents is also presented for the purpose of additional analysis and is not a required part of the basic financial statements of the City of Allegan, Michigan. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion thereon.

Sigfried Crandall P.C.

November 18, 2008

BASIC FINANCIAL STATEMENTS

City of Allegan
STATEMENT OF NET ASSETS
June 30, 2008

	<i>Primary government</i>		
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Totals</i>
ASSETS			
Current assets:			
Cash	\$ 2,977,343	\$ 111,987	\$ 3,089,330
Investments	2,962,224	-	2,962,224
Receivables	292,168	426,723	718,891
Total current assets	6,231,735	538,710	6,770,445
Noncurrent assets:			
Restricted cash	-	157,379	157,379
Unamortized bond issuance costs	21,084	63,084	84,168
Land	976,794	40,585	1,017,379
Depreciable capital assets, net	10,382,887	12,894,841	23,277,728
Total noncurrent assets	11,380,765	13,155,889	24,536,654
Total assets	17,612,500	13,694,599	31,307,099
LIABILITIES			
Current liabilities:			
Payables	224,294	161,502	385,796
Customer deposits	-	10,712	10,712
Bonds and notes payable	572,147	231,233	803,380
Total current liabilities	796,441	403,447	1,199,888
Noncurrent liabilities:			
Compensated absences	139,837	-	139,837
Bonds and notes payable	4,626,985	3,738,682	8,365,667
Total noncurrent liabilities	4,766,822	3,738,682	8,505,504
Total liabilities	5,563,263	4,142,129	9,705,392
NET ASSETS			
Invested in capital assets, net of related debt	6,160,549	8,965,511	15,126,060
Restricted for:			
Public works	524,315	-	524,315
Economic development	37,046	-	37,046
Recreation and culture	233,091	-	233,091
Debt service	-	157,379	157,379
Capital projects	3,309,434	-	3,309,434
Perpetual care	152,501	-	152,501
Unrestricted	1,632,301	429,580	2,061,881
Total net assets	\$ 12,049,237	\$ 9,552,470	\$ 21,601,707

<i>Component units</i>	
<i>Downtown Development Authority</i>	<i>Brownfield Redevelopment Authority</i>
\$ 294,329	\$ -
-	-
-	-
294,329	-
-	-
-	-
-	-
-	-
-	-
294,329	-
7,340	-
-	-
15,000	-
22,340	-
-	-
225,000	-
225,000	-
247,340	-
-	-
-	-
-	-
-	-
-	-
-	-
46,989	-
\$ 46,989	\$ -

See notes to the financial statements

City of Allegan
STATEMENT OF ACTIVITIES
Year ended June 30, 2008

Functions /Programs	<u>Expenses</u>	<u>Program revenues</u>		
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
Primary government:				
Governmental activities:				
Legislative	\$ 14,590	\$ -	\$ -	\$ -
General government	919,282	189,561	165	-
Public safety	1,668,729	59,274	2,668	-
Public works	1,015,451	102,010	568,107	-
Community and economic development	2,237	-	-	-
Recreation and culture	1,187,461	274,967	124,627	31,000
Interest on long-term debt	141,877	-	-	-
Total governmental activities	<u>4,949,627</u>	<u>625,812</u>	<u>695,567</u>	<u>31,000</u>
Business-type activities:				
Sewer	1,249,717	1,050,732	22,500	-
Water	1,148,587	1,314,344	-	-
Total business-type activities	<u>2,398,304</u>	<u>2,365,076</u>	<u>22,500</u>	<u>-</u>
Total primary government	<u>\$ 7,347,931</u>	<u>\$ 2,990,888</u>	<u>\$ 718,067</u>	<u>\$ 31,000</u>
Component units:				
Downtown Development Authority	\$ 154,644	\$ 3,121	\$ -	\$ -
Brownfield Redevelopment Authority	12,998	-	-	-
Total component units	<u>\$ 167,642</u>	<u>\$ 3,121</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:
Property taxes
State shared revenue
Unrestricted investment return
Franchise fees
Other
Gains on sales of capital assets
Transfer - contribution of capital assets

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets				
Primary government			Component units	
Governmental activities	Business-type activities	Totals	Downtown Development Authority	Brownfield Redevelopment Authority
\$ (14,590)		\$ (14,590)		
(729,556)		(729,556)		
(1,606,787)		(1,606,787)		
(345,334)		(345,334)		
(2,237)		(2,237)		
(756,867)		(756,867)		
(141,877)		(141,877)		
(3,597,248)		(3,597,248)		
	\$ (176,485)	(176,485)		
	165,757	165,757		
	(10,728)	(10,728)		
(3,597,248)	(10,728)	(3,607,976)		
			\$ (151,523)	\$ -
			-	(12,998)
			(151,523)	(12,998)
3,074,267	-	3,074,267	186,550	-
512,852	-	512,852	-	-
429,800	6,443	436,243	3,257	-
40,619	-	40,619	-	-
43,677	-	43,677	-	-
50,962	-	50,962	-	-
(158,788)	158,788	-	-	-
3,993,389	165,231	4,158,620	189,807	-
396,141	154,503	550,644	38,284	(12,998)
11,653,096	9,397,967	21,051,063	8,705	12,998
\$ 12,049,237	\$ 9,552,470	\$ 21,601,707	\$ 46,989	\$ -

See notes to the financial statements

City of Allegan
BALANCE SHEET - governmental funds
June 30, 2008

	<u>General</u>	<u>Capital Projects</u>	<u>Capital Asset Improvement Sinking</u>	<u>Nonmajor governmental funds</u>
ASSETS				
Cash	\$ 1,288,004	\$ -	\$ 655,050	\$ 985,086
Investments	448,961	-	2,462,407	50,856
Receivables	185,130	-	-	107,038
Due from other funds	54,918	-	-	153,205
Total assets	<u>\$ 1,977,013</u>	<u>\$ -</u>	<u>\$ 3,117,457</u>	<u>\$ 1,296,185</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables	\$ 131,155	\$ -	\$ -	\$ 46,098
Due to other funds	98,287	-	109,836	-
Total liabilities	<u>229,442</u>	<u>-</u>	<u>109,836</u>	<u>46,098</u>
Fund balances:				
Reserved:				
Capital projects	-	-	3,007,621	-
Perpetual care	-	-	-	152,501
Recreation and culture	-	-	-	17,583
Unreserved	1,747,571	-	-	-
Unreserved, reported in nonmajor - special revenue funds	-	-	-	1,080,003
Total fund balances	<u>1,747,571</u>	<u>-</u>	<u>3,007,621</u>	<u>1,250,087</u>
Total liabilities and fund balances	<u>\$ 1,977,013</u>	<u>\$ -</u>	<u>\$ 3,117,457</u>	<u>\$ 1,296,185</u>

Total fund balances - total governmental funds

Amounts reported for *governmental activities* in the statement of net assets (page 5) are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.

Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds.

Internal service funds are used by management to charge the costs of fleet management and various insurances to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Compensated absence and accrued interest liabilities are not due and payable in the current period and are not reported in the funds.

Bonds payable are not due and payable in the current period and are not reported in the funds.

Net assets of *governmental activities*

**Total
governmental
funds**

\$ 2,928,140
2,962,224
292,168
208,123

\$ 6,390,655

\$ 177,253
208,123

385,376

3,007,621
152,501
17,583
1,747,571

1,080,003

6,005,279

\$ 6,390,655

\$ 6,005,279

10,731,871

21,084

670,672

(180,537)

(5,199,132)

\$ 12,049,237

See notes to the financial statements

City of Allegan

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCES - governmental funds

Year ended June 30, 2008

	<u>General</u>	<u>Capital Projects</u>	<u>Capital Asset Improvement Sinking</u>
REVENUES			
Property taxes	\$ 2,980,275	\$ -	\$ -
Licenses and permits	21,169	-	-
Federal grants	-	5,282	-
State grants	549,143	-	-
Contributions from local units	11,982	-	-
Charges for services	73,562	-	-
Fines and forfeitures	25,456	-	-
Investment return and rentals	297,353	2,666	187,339
Other	67,338	13,863	-
Total revenues	<u>4,026,278</u>	<u>21,811</u>	<u>187,339</u>
EXPENDITURES			
Legislative	14,590	-	-
General government	841,075	-	-
Public safety	1,596,747	-	-
Public works	160,964	457,647	-
Community and economic development	-	-	-
Recreation and culture	461,796	-	-
Capital outlay	187,456	-	-
Debt service:			
Principal	130,078	337,302	-
Interest	61,852	80,221	-
Total expenditures	<u>3,454,558</u>	<u>875,170</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>571,720</u>	<u>(853,359)</u>	<u>187,339</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	104,918	424,716	-
Transfers out	(681,623)	-	(159,836)
Total other financing sources (uses)	<u>(576,705)</u>	<u>424,716</u>	<u>(159,836)</u>
NET CHANGE IN FUND BALANCES	(4,985)	(428,643)	27,503
FUND BALANCES - BEGINNING	<u>1,752,556</u>	<u>428,643</u>	<u>2,980,118</u>
FUND BALANCES - ENDING	<u>\$ 1,747,571</u>	<u>\$ -</u>	<u>\$ 3,007,621</u>

<i>Nonmajor governmental funds</i>	<i>Total governmental funds</i>
\$ 246,825	\$ 3,227,100
-	21,169
-	5,282
404,285	953,428
205,980	217,962
181,543	255,105
106,683	132,139
44,434	531,792
85,526	166,727
<u>1,275,276</u>	<u>5,510,704</u>
-	14,590
3,749	844,824
-	1,596,747
649,809	1,268,420
34,437	34,437
595,307	1,057,103
59,104	246,560
80,000	547,380
-	142,073
<u>1,422,406</u>	<u>5,752,134</u>
<u>(147,130)</u>	<u>(241,430)</u>
311,825	841,459
-	(841,459)
<u>311,825</u>	<u>-</u>
164,695	(241,430)
<u>1,085,392</u>	<u>6,246,709</u>
<u>\$ 1,250,087</u>	<u>\$ 6,005,279</u>

See notes to the financial statements

City of Allegan

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds (Continued)**

Year ended June 30, 2008

	<u>Total governmental funds</u>
Net change in fund balances - total governmental funds	\$ (241,430)
Amounts reported for <i>governmental activities</i> in the statement of activities (page 6) are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.	
Add: Capital asset acquisitions	703,022
Deduct: Provision for depreciation	(473,708)
Long-term debt - principal repayments	547,380
Changes in other assets and liabilities:	
Amortization of bond issuance costs	(1,004)
Net increase in compensated absences	(34,854)
Net decrease in accrued interest payable	1,200
Net decrease in deferred revenue	(9,635)
The net losses of certain activities of the internal service funds is reported with governmental activities.	<u>(94,830)</u>
Change in net assets of <i>governmental activities</i>	<u>\$ 396,141</u>

See notes to the financial statements

City of Allegan
STATEMENT OF NET ASSETS - proprietary funds
June 30, 2008

	<i>Business-type activities</i>			<i>Governmental Activities</i>
	<i>Enterprise funds</i>			<i>Internal Service</i>
	<i>Sewer</i>	<i>Water</i>	<i>Totals</i>	
ASSETS				
Current assets:				
Cash	\$ 46,194	\$ 65,793	\$ 111,987	\$ 49,203
Receivables	188,685	238,038	426,723	-
Due from other funds	-	183,738	183,738	-
Total current assets	<u>234,879</u>	<u>487,569</u>	<u>722,448</u>	<u>49,203</u>
Noncurrent assets:				
Restricted cash	-	157,379	157,379	-
Unamortized bond issuance costs	24,612	38,472	63,084	-
Land	-	40,585	40,585	-
Depreciable capital assets, net	<u>7,818,822</u>	<u>5,076,019</u>	<u>12,894,841</u>	<u>627,810</u>
Total noncurrent assets	<u>7,843,434</u>	<u>5,312,455</u>	<u>13,155,889</u>	<u>627,810</u>
Total assets	<u>8,078,313</u>	<u>5,800,024</u>	<u>13,878,337</u>	<u>677,013</u>
LIABILITIES				
Current liabilities:				
Payables	98,985	62,517	161,502	6,341
Due to other funds	183,738	-	183,738	-
Customer deposits	-	10,712	10,712	-
Bonds payable	<u>50,550</u>	<u>180,683</u>	<u>231,233</u>	<u>-</u>
Total current liabilities	<u>333,273</u>	<u>253,912</u>	<u>587,185</u>	<u>6,341</u>
Noncurrent liabilities - bonds payable	<u>1,834,450</u>	<u>1,904,232</u>	<u>3,738,682</u>	<u>-</u>
Total liabilities	<u>2,167,723</u>	<u>2,158,144</u>	<u>4,325,867</u>	<u>6,341</u>
NET ASSETS				
Invested in capital assets, net of related debt	5,933,822	3,031,689	8,965,511	627,810
Restricted for debt service	-	157,379	157,379	-
Unrestricted (deficit)	<u>(23,232)</u>	<u>452,812</u>	<u>429,580</u>	<u>42,862</u>
Total net assets	<u>\$ 5,910,590</u>	<u>\$ 3,641,880</u>	<u>\$ 9,552,470</u>	<u>\$ 670,672</u>

See notes to the financial statements

City of Allegan

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND

NET ASSETS - proprietary funds

Year ended June 30, 2008

	<i>Business-type activities</i>			<i>Governmental Activities</i>
	<i>Enterprise funds</i>			<i>Internal Service</i>
	<i>Sewer</i>	<i>Water</i>	<i>Totals</i>	
OPERATING REVENUES				
Charges for services	\$ 1,032,255	\$ 1,247,521	\$ 2,279,776	\$ 836,609
State grant	22,500	-	22,500	-
Other	18,477	66,823	85,300	6,115
Total operating revenues	<u>1,073,232</u>	<u>1,314,344</u>	<u>2,387,576</u>	<u>842,724</u>
OPERATING EXPENSES				
Administration	96,788	96,797	193,585	-
Plant	601,690	531,289	1,132,979	-
Wastewater collection	181,955	-	181,955	-
Water distribution	-	129,824	129,824	-
Meter reading	14,330	20,424	34,754	-
Depreciation	257,557	161,026	418,583	101,572
Costs of interfund services	-	-	-	839,469
Total operating expenses	<u>1,152,320</u>	<u>939,360</u>	<u>2,091,680</u>	<u>941,041</u>
OPERATING INCOME (LOSS)	<u>(79,088)</u>	<u>374,984</u>	<u>295,896</u>	<u>(98,317)</u>
NONOPERATING REVENUES (EXPENSES)				
Capital contributions	45,368	113,420	158,788	-
Investment return	740	5,703	6,443	7,020
Loss on sale of capital assets	-	-	-	(3,533)
Interest expense	(97,397)	(209,227)	(306,624)	-
Total nonoperating revenues (expenses)	<u>(51,289)</u>	<u>(90,104)</u>	<u>(141,393)</u>	<u>3,487</u>
CHANGE IN NET ASSETS	<u>(130,377)</u>	<u>284,880</u>	<u>154,503</u>	<u>(94,830)</u>
NET ASSETS - BEGINNING	<u>6,040,967</u>	<u>3,357,000</u>	<u>9,397,967</u>	<u>765,502</u>
NET ASSETS - ENDING	<u>\$ 5,910,590</u>	<u>\$ 3,641,880</u>	<u>\$ 9,552,470</u>	<u>\$ 670,672</u>

See notes to the financial statements

City of Allegan
STATEMENT OF CASH FLOWS - proprietary funds
Year ended June 30, 2008

	<i>Business-type activities</i>		
	<i>Enterprise funds</i>		
	<i>Sewer</i>	<i>Water</i>	<i>Totals</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,057,623	\$ 1,345,600	\$ 2,403,223
Receipts from interfund services provided	-	-	-
Payments to suppliers	(514,563)	(388,425)	(902,988)
Payments to employees	(253,322)	(289,949)	(543,271)
Payments for interfund services used	(96,788)	(96,797)	(193,585)
Net cash provided by operating activities	<u>192,950</u>	<u>570,429</u>	<u>763,379</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Increase in due to other funds	<u>183,738</u>	<u>-</u>	<u>183,738</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Increase in due from other funds	-	(183,738)	(183,738)
Acquisition of capital assets	(517,475)	-	(517,475)
Principal payments on capital debt	(50,000)	(170,085)	(220,085)
Interest payments on capital debt	(96,625)	(209,095)	(305,720)
Net cash used in capital and related financing activities	<u>(664,100)</u>	<u>(562,918)</u>	<u>(1,227,018)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Redemption of investments	-	-	-
Interest received	<u>740</u>	<u>5,703</u>	<u>6,443</u>
Net cash provided by investing activities	<u>740</u>	<u>5,703</u>	<u>6,443</u>
NET INCREASE (DECREASE) IN CASH	(286,672)	13,214	(273,458)
CASH - BEGINNING (including \$152,056 in restricted accounts)	<u>332,866</u>	<u>209,958</u>	<u>542,824</u>
CASH - ENDING (including \$157,379 in restricted accounts)	<u>\$ 46,194</u>	<u>\$ 223,172</u>	<u>\$ 269,366</u>

**Governmental
Activities**

**Internal
Service**

\$ -
842,724
(795,141)
(42,315)

-

5,268

-

-

-
(116,850)
-
-

-

(116,850)

96,676
7,020

103,696

(7,886)

57,089

\$ 49,203

See notes to the financial statements

STATEMENT OF CASH FLOWS - proprietary funds(Continued)

Year ended June 30, 2008

	<i>Business-type activities</i>		
	<i>Enterprise funds</i>		
	<i>Sewer</i>	<i>Water</i>	<i>Totals</i>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (79,088)	\$ 374,984	\$ 295,896
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	257,557	161,026	418,583
(Increase) decrease in - receivables	(15,609)	32,804	17,195
Increase (decrease) in:			
Payables	30,090	3,163	33,253
Customer deposits	-	(1,548)	(1,548)
Net cash provided by operating activities	<u>\$ 192,950</u>	<u>\$ 570,429</u>	<u>\$ 763,379</u>
Noncash capital and related financing activities:			
Acquisition of capital assets	\$ (562,843)	\$ (113,420)	\$ (676,263)
Less, amounts transferred from governmental activities	<u>45,368</u>	<u>113,420</u>	<u>158,788</u>
Cash used	<u>\$ (517,475)</u>	<u>\$ -</u>	<u>\$ (517,475)</u>

***Governmental
Activities
Internal
Service***

\$ (98,317)

101,572

-

2,013

-

\$ 5,268

\$ (116,850)

-

\$ (116,850)

See notes to the financial statements

City of Allegan

STATEMENT OF FIDUCIARY NET ASSETS - agency fund

June 30, 2008

ASSETS

Cash	\$ 7,706
------	----------

LIABILITIES

Due to other governmental units	\$ 7,706
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See notes to the financial statements

City of Allegan
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the City of Allegan, Michigan (the City), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity:

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally from the City.

Discretely presented component units:

Downtown Development Authority and Brownfield Development Authority:

Each component units' governing body is appointed by the City Council and their budgets must be approved by the City Council. Separate financial statements for the component units have not been issued as management believes that these financial statements, including disclosures, contain complete information so as to constitute a fair presentation of each component unit.

Hospital Finance Authority:

The Hospital Finance Authority (the Authority) was created to provide a method to enable nonprofit, nonpublic hospitals to provide facilities and services for health care and, to accomplish these purposes, the Authority is authorized to issue bonds. A three-person Commission, appointed by the City Council, governs the Authority that may not issue debt without the approval of the City Council. The Authority has no assets, liabilities, equity, revenues, or expenses; therefore, no separate columns have been included in the financial statements associated with the Authority.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers property tax revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Capital Asset Improvement Sinking Fund accounts for financial resources to be used to purchase capital additions, improvements, or betterments. Revenues are derived from the investment earnings of a trust fund established in 1967 when the City sold its electric utility facilities.

The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the City's sewage collection systems and treatment plant.

The Water Fund accounts for the activities of the City's water distribution system.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

The City reports a fiduciary fund, its Tax Collection Fund, which accounts for assets held by the City as an agent for individuals, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Additionally, the City reports internal service funds that account for fleet management services and insurances provided to other departments of the City on a cost-reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector standards.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

d) Assets, liabilities, and net assets or equity:

i) Cash and investments - Cash is considered to be cash on hand, demand deposits, time deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

All investments are reported at fair market value, with changes in value recognized in the operating statement of each fund. Realized and unrealized gains and losses are included in investment income. Pooled investment income is proportionately allocated to all funds.

ii) Receivables - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the City considers all receivables to be fully collectible.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

iii) Prepaid items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

iv) Restricted assets - Certain bond proceeds and resources set aside for their repayment are classified as restricted assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

v) Capital assets - Capital assets, which include property, equipment, and infrastructure assets (e.g., streets, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements.

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The City has elected to account for infrastructure assets prospectively, beginning July 1, 2003.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20 - 40 years
Equipment	3 - 20 years
Vehicles	4 - 20 years
Sewer and water systems	50 years

vi) Compensated absences - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the City. Vested compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

vii) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

viii) Property tax revenue recognition - Property taxes are levied as of July 1 on property values assessed as of December 31 of the prior year. The billings are due on or before August 10, after which time the bill becomes delinquent and penalties and interest may be assessed by the City. Property tax revenue is recognized in the year for which taxes have been levied and become available. The City levy date is July 1, and, accordingly, the total levy is recognized as revenue in the current year.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the City's general and special revenue funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year. The City experienced no budget variances at the functional level during the current fiscal year.

Fund deficit - As of June 30, 2008, the City's Sewer Fund, an enterprise fund, has an accumulated unrestricted net asset deficit, in the total amount of \$23,232, because revenues were insufficient to cover the costs of operations. Future revenues will be enhanced through the increase in billing rates in an effort to eliminate the deficit.

NOTE 3 - CASH AND INVESTMENTS:

At June 30, 2008, cash and investments are classified in the accompanying financial statements as follows:

Statement of net assets:

Primary government:	
Cash	\$ 3,089,330
Investments	2,962,224
Restricted cash	157,379
Component units:	
Cash	294,329
Fiduciary fund - cash	<u>7,706</u>
Total cash and investments	<u>\$ 6,510,968</u>

At June 30, 2008, cash and investments consist of the following:

Cash on hand	\$ 600
Deposits with financial institutions	3,548,144
Investments	<u>2,962,224</u>
Total	<u>\$ 6,510,968</u>

Deposits with financial institutions:

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the City's investment policy authorize the City to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The City's deposits are in accordance with statutory authority.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS (Continued):

Custodial credit risk - deposits. This is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance. As of June 30, 2008, \$3,763,713 of the City's bank balances of \$4,102,414 was exposed to custodial credit risk because it was uninsured. The City maintains individual and pooled cash accounts for all of its funds and its component units. Due to use of pooled deposits, it is not practicable to allocate insured and uninsured portions of certain bank balances between the primary government and its component units.

The City believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the City evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Investments:

State statutes and the City's investment policy authorize the City to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper rated within the two highest rate classifications, which mature not more than 270 days after the date of purchase; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; and e) mutual funds composed of otherwise legal investments.

The City's investments are subject to several types of risk, which are discussed below:

Custodial credit risk. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City's investment policy does not contain requirements that would limit the exposure to custodial credit risk for investments. At year end, the following investment securities were uninsured and unregistered and held by the same broker-dealer (counterparty) that purchased the securities for the City:

<u>Investment type</u>	<u>Carrying amount</u>
U.S. government and agency securities	<u>\$ 2,962,224</u>

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS (Continued):

Interest rate risk. Interest rate risk is the risk that the value of an investment will decrease as a result of an increase in market interest rates. Generally, longer investment maturities generate more sensitivity to changes in an investment's fair value due to changes in market interest rates. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City's investment policy has no specific limitations with respect to maturities of investments. At year end, the average maturities of the City's investments are as follows:

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (in years)</u>
U. S. government and agency securities:		
Treasury Notes	\$ 406,547	1.18
Federal Home Loan Bank	968,509	4.09
Federal Farm Credit Bank	325,379	2.67
Federal National Mortgage Association	581,043	2.88
Federal Home Loan Mortgage Corporation	<u>680,746</u>	4.00
Total fair value	<u>\$ 2,962,224</u>	
Portfolio weighted average maturity		3.35

Credit risk. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. At year end, the credit quality ratings of the City's investments are as follows:

<u>Investment type</u>	<u>Fair value</u>	<u>Rating</u>	<u>Rating organization</u>
U.S. government and agency securities:			
Federal National Mortgage Association	\$ 581,043	AAA	S&P
Federal Home Loan Mortgage Corporation	680,746	AAA	S&P

Concentration of credit risk. The City's investment policy places no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities) that represent 5% or more of the City's total investment are as follows:

<u>Issuer</u>	<u>Fair value</u>	<u>Percentage</u>
U.S. government agencies:		
Federal Home Loan Bank	\$ 968,509	33%
Federal National Mortgage Association	581,043	19%
Federal Home Loan Mortgage Corporation	680,746	23%
Treasury notes	406,547	14%
Federal Farm Credit Bank	325,379	11%

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

At June 30, 2008, the City's receivables are as follows:

	<u>Property taxes</u>	<u>Accounts</u>	<u>Inter- govern- mental</u>	<u>Totals</u>
Governmental funds:				
General Fund	\$ 9,086	\$ 12,258	\$ 163,786	\$ 185,130
Nonmajor governmental funds	<u>991</u>	<u>7,500</u>	<u>98,547</u>	<u>107,038</u>
Total governmental funds	<u>\$ 10,077</u>	<u>\$ 19,758</u>	<u>\$ 262,333</u>	<u>\$ 292,168</u>
Proprietary funds:				
Sewer Fund	\$ -	\$ 188,685	\$ -	\$ 188,685
Water Fund	<u>-</u>	<u>238,038</u>	<u>-</u>	<u>238,038</u>
Total proprietary funds	<u>\$ -</u>	<u>\$ 426,723</u>	<u>\$ -</u>	<u>\$ 426,723</u>

All receivables are due within one year and are considered fully collectible.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2008, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	\$ 976,794	\$ -	\$ -	\$ 976,794
Capital assets being depreciated:				
Streets	3,648,724	477,952	-	4,126,676
Land improvements	5,185,763	119,677	-	5,305,440
Buildings and improvements	2,720,687	23,061	-	2,743,748
Furniture, equipment, and books	1,469,354	54,475	-	1,523,829
Vehicles	1,007,412	144,707	(32,614)	1,119,505
Subtotal	14,031,940	819,872	(32,614)	14,819,198
Less accumulated depreciation for:				
Streets	(211,698)	(188,114)	-	(399,812)
Land improvements	(1,026,190)	(151,240)	-	(1,177,430)
Buildings and improvements	(1,033,168)	(63,389)	-	(1,096,557)
Furniture, equipment, and books	(960,882)	(97,586)	-	(1,058,468)
Vehicles	(658,174)	(74,951)	29,081	(704,044)
Subtotal	(3,890,112)	(575,280)	29,081	(4,436,311)
Total capital assets being depreciated, net	10,141,828	244,592	(3,533)	10,382,887
Governmental activities capital assets, net	\$ 11,118,622	\$ 244,592	\$ (3,533)	\$ 11,359,681

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Capital assets not being depreciated - land	\$ 40,585	\$ -	\$ -	\$ 40,585
Capital assets being depreciated:				
Sewer system	12,313,506	562,843	-	12,876,349
Water system	7,816,388	113,420	-	7,929,808
Subtotal	20,129,894	676,263	-	20,806,157
Less accumulated depreciation for:				
Sewer system	(4,799,970)	(257,557)	-	(5,057,527)
Water system	(2,692,763)	(161,026)	-	(2,853,789)
Subtotal	(7,492,733)	(418,583)	-	(7,911,316)
Total capital assets being depreciated, net	12,637,161	257,680	-	12,894,841
Business-type activities capital assets, net	<u>\$ 12,677,746</u>	<u>\$ 257,680</u>	<u>\$ -</u>	<u>\$ 12,935,426</u>

Depreciation expense was charged to the City's functions as follows:

Governmental activities:	
General government	\$ 8,568
Public safety	36,030
Public works	334,885
Recreation and culture	94,225
Depreciation on internal service fund assets	101,572
Total governmental activities	<u>\$ 575,280</u>

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - PAYABLES:

At June 30, 2008, the payables of the City's funds are as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Payroll</u>	<u>Interest</u>	<u>Totals</u>
Governmental funds:				
General	\$ 86,890	\$ 44,265	\$ -	\$ 131,155
Nonmajor governmental	<u>35,331</u>	<u>10,767</u>	<u>-</u>	<u>46,098</u>
Totals	<u>\$ 122,221</u>	<u>\$ 55,032</u>	<u>\$ -</u>	<u>\$ 177,253</u>
Proprietary funds:				
Sewer	\$ 70,003	\$ 14,682	\$ 14,300	\$ 98,985
Water	<u>8,642</u>	<u>25,775</u>	<u>28,100</u>	<u>62,517</u>
Totals	<u>\$ 78,645</u>	<u>\$ 40,457</u>	<u>\$ 42,400</u>	<u>\$ 161,502</u>

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

At June 30, 2008, the composition of interfund balances is as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
General	\$ 54,918		
Capital Reserve	<u>54,918</u>		
	109,836	Capital Asset Improvement Improvement Sinking	\$ 109,836
Cemetery Perpetual Care	98,287	General	98,287
Sewer	<u>183,738</u>	Water	<u>183,738</u>
Total	<u>\$ 391,861</u>	Total	<u>\$ 391,861</u>

The amount payable by the Capital Asset Sinking Fund represents distributable amounts of the fund's realized investment earnings for the fiscal year ended June 30, 2008. The distributions are made pursuant to a trust agreement.

The amount payable by the General Fund to the Cemetery Perpetual Care Fund represents a loan to finance the cost of improvements to the City cemetery in prior years. None of the balance is scheduled to be collected in the subsequent year.

The amount due to the Sewer Fund from the Water Fund represents short-term borrowing through the pooled checking account.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued):

<u>Fund</u>	<u>Transfers in</u>	<u>Fund</u>	<u>Transfers out</u>
General	\$ 54,918		
Nonmajor governmental	<u>54,918</u>		
	109,836	Capital Asset Improvement Sinking	\$ 109,836
General	50,000	Capital Asset Improvement Sinking	50,000
Capital Projects	424,716	General	424,716
Nonmajor governmental	<u>256,907</u>	General	<u>256,907</u>
Total	<u>\$ 841,459</u>	Total	<u>\$ 841,459</u>

The transfers out of the Capital Asset Improvement Sinking Fund, in the amount of \$109,836, represent distributions of the fund's realized investment earnings for the fiscal year ended June 30, 2008. The distributions are made pursuant to a trust agreement.

The transfer out of the Capital Asset Improvement Sinking Fund to the General Fund, in the amount of \$50,000, represents financing of capital improvements accounted for in the General Fund that was approved by the City's voters.

The transfer to the Capital Projects Fund from the General Fund represents unrestricted revenues collected in the General Fund that are being used to finance debt service costs accounted for in the Capital Projects Fund.

The transfers out of the General Fund to various nonmajor governmental funds typically represent unrestricted revenues collected in the General Fund that are being used to support programs accounted for in the nonmajor governmental funds. This amount includes a \$54,907 transfer to the Cemetery Perpetual Care Fund which reimbursed the fund for capital outlay costs incurred in 2007 and 2008.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - LONG-TERM OBLIGATIONS:

At June 30, 2008, long-term obligations, other than compensated absences, are comprised of the following individual issues:

Primary government:

Governmental activities:

Bonds and notes:

\$1,373,796 1998 Michigan Economic Development Corporation note - payable in quarterly installments of \$15,575 bearing 0% interest through December 2012	\$ 311,509
\$3,000,000 1998 General obligation limited tax improvement bonds - payable in annual installments ranging from \$145,000 to \$340,000, plus interest at 4.25% to 4.90%; final payment due November 2012	1,565,000
\$607,000 1999 Installment purchase agreement note - payable in annual installments ranging from \$49,573 to \$88,920, plus interest at 4.85%; final payment due August 2010	206,246
\$360,000 2004 USDA airport revenue bonds - payable in annual installments ranging from \$7,000 to \$21,000, plus interest at 4.25%; final payment due July 2033	332,000
\$3,075,000 2004 Capital improvement bonds - payable in annual installments ranging from \$100,000 to \$127,000, plus interest at 2.00% to 5.25%; final payment due May 2019	2,675,085
\$359,365 2006 Michigan Economic Development Corporation note - payable in quarterly installments of \$8,984 bearing 0% interest through September 2011	<u>109,292</u>
Total bonds and notes	<u>\$ 5,199,132</u>

Business-type activities:

Bonds:

\$850,000 1996 Water supply system revenue bonds - payable in annual installments ranging from \$65,000 to \$90,000, plus interest at 4.90% to 5.90%; final payment due May 2011	\$ 250,000
\$650,000 2001 Water supply system revenue bonds - payable in annual installments ranging from \$35,000 to \$60,000, plus interest at 3.50% to 5.00%; final payment due May 2016	405,000
\$3,825,000 2004 Capital improvement bonds - payable in annual installments ranging from \$155,000 to \$223,000, plus interest at 2.00% to 5.25%; final payment due May 2029	<u>3,314,915</u>
Total business-type activities long-term obligations	<u>\$ 3,969,915</u>

Component unit - Downtown Development Authority:

\$300,000 2004 Capital improvement bonds - payable in annual installments ranging from \$15,000 to \$25,000, plus interest at 2.00% to 5.25%; final payment due May 2019	<u>\$ 240,000</u>
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City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - LONG-TERM OBLIGATIONS (Continued):

Long-term obligation activity for the year ended June 30, 2008, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Primary government:					
Governmental activities:					
1998 MEDC loan	\$ 373,811	\$ -	\$ (62,302)	\$ 311,509	\$ 62,302
1998 General obligation bonds	1,840,000	-	(275,000)	1,565,000	285,000
1999 Installment purchase note	260,472	-	(54,226)	206,246	57,141
2004 USDA revenue bonds	332,000	-	-	332,000	8,000
2004 Capital improvement bonds	2,795,000	-	(119,915)	2,675,085	123,767
2006 MEDC loan	145,229	-	(35,937)	109,292	35,937
Total bonds and notes	5,746,512	-	(547,380)	5,199,132	572,147
Compensated absences	104,983	231,473	(196,619)	139,837	-
Total governmental activities	<u>\$ 5,851,495</u>	<u>\$ 231,473</u>	<u>\$ (743,999)</u>	<u>\$ 5,338,969</u>	<u>\$ 572,147</u>
Business-type activities:					
1996 Water revenue bonds	\$ 325,000	\$ -	\$ (75,000)	\$ 250,000	\$ 80,000
2001 Water revenue bonds	445,000	-	(40,000)	405,000	45,000
2004 Capital improvements bonds	3,420,000	-	(105,085)	3,314,915	106,233
Total business-type activities	<u>\$ 4,190,000</u>	<u>\$ -</u>	<u>\$ (220,085)</u>	<u>\$ 3,969,915</u>	<u>\$ 231,233</u>
Component unit - Downtown Development Authority:					
2004 Capital improvement bonds	<u>\$ 255,000</u>	<u>\$ -</u>	<u>\$ (15,000)</u>	<u>\$ 240,000</u>	<u>\$ 15,000</u>

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - LONG-TERM OBLIGATIONS (Continued):

At June 30, 2008, debt service requirements, excluding compensated absences, were as follows:

<i>Year ended June 30:</i>	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Component Unit</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2009	\$ 572,147	\$ 189,965	\$ 231,233	\$ 196,301	\$ 15,000	\$ 11,387
2010	591,477	205,396	239,675	185,511	20,000	10,788
2011	643,460	180,768	251,971	174,238	20,000	9,987
2012	532,517	157,124	174,266	161,549	20,000	9,088
2013	553,740	134,581	176,561	153,557	20,000	8,187
2014 - 2018	872,962	514,420	919,038	630,584	120,000	25,001
2019 - 2023	615,441	307,511	757,559	417,985	25,000	1,312
2024 - 2028	643,719	159,276	929,281	208,025	-	-
2029 - 2033	152,669	20,947	290,331	11,305	-	-
2034 - 2038	21,000	358	-	-	-	-
	<u>\$ 5,199,132</u>	<u>\$ 1,870,346</u>	<u>\$ 3,969,915</u>	<u>\$ 2,139,055</u>	<u>\$ 240,000</u>	<u>\$ 75,750</u>

All debt is secured by the full faith and credit of the City.

Conduit debt obligation:

The City, through its Hospital Finance Authority, has issued Hospital Revenue and Refunding Bonds to provide financial assistance to a nonprofit hospital for the acquisition and construction of hospital facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely by the nonprofit hospital. Neither the City, the State of Michigan, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. At June 30, 2008, Allegan General Hospital Revenue and Refunding Bonds outstanding aggregated \$7,945,000.

NOTE 9 - DEFINED BENEFIT PENSION PLAN:

Plan description:

The City's defined benefit pension plan provides retirement, disability, and death benefits to plan members and beneficiaries. The City's defined benefit pension plan is affiliated with the Municipal Employees' Retirement System of Michigan (MERS), an agent, multiple-employer, public employee retirement system that acts as a common investment and administrative agent for municipalities in Michigan. Public Act 220 of 1996 of the State of Michigan assigns the authority to establish and amend the benefit provisions to the City of Allegan. The MERS issues a publicly-available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 N. Canal, Lansing, Michigan 48917, or by calling 1-800-767-6377.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 - DEFINED BENEFIT PENSION PLAN (Continued):

Funding policy:

Contribution rates for each participating employer and its covered employees are established and may be amended by each participating unit. The contribution rates are determined based on the benefit structure established by each employer. Covered employees are not required to contribute to the plan. Participating employers are required to contribute amounts necessary to finance the coverage of their employees through periodic contributions at actuarially-determined rates. Administrative costs of the plan are financed through investment earnings.

Annual pension cost:

For the year ended June 30, 2008, the City's annual pension cost of \$233,629 for its defined benefit pension plan was equal to the required and actual contributions. The required contribution was determined as part of the December 31, 2005, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included a) 8% investment rate of return, net of administrative expenses, b) projected salary increases of 4.5% per year, and c) no cost of living adjustments. The actuarial value of the plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized over a closed period of 30 years as a level percentage of payroll.

Three-year trend information is as follows:

<i>Fiscal year ending</i>	<i>Annual pension cost (APC)</i>	<i>Percentage of APC contributed</i>	<i>Net pension obligation</i>
06/30/06	\$ 141,554	100%	\$ -
06/30/07	138,808	100%	-
06/30/08	233,629	100%	-

Funded status and funding progress:

The funded status of the plan as of December 31, 2007, the most recent actuarial date, is as follows:

<i>Actuarial value of assets (a)</i>	<i>Actuarial accrued liability (AAL) entry age (b)</i>	<i>Unfunded AAL (UAAL) (b-a)</i>	<i>Funded ratio (a/b)</i>	<i>Covered payroll (c)</i>	<i>UAAL as a percentage of covered payroll ((b-a)/c)</i>
\$2,061,643	\$ 3,381,475	\$ 1,319,832	61%	\$ 662,438	199%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Certain other accounting policies and plan asset matters are discussed in greater detail in the City's actuarial valuation.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 - DEFINED CONTRIBUTION PENSION PLAN:

On July 1, 1985, the City adopted a defined contribution pension plan, specifically referred to as the City of Allegan Employees' Money Purchase Plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate after completing one thousand hours of service and attaining the age of eighteen. The Plan requires that the City contribute, on behalf of each covered employee, the greater of 10% of their taxable wage base or \$1,500. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service. City contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the City's current period contribution requirements. The City is not responsible for investment management of plan assets. Michigan state statutes assign the authority to establish and amend benefit provisions to the Allegan City Council.

The City made the required contributions of \$189,924 for the year ended June 30, 2008.

NOTE 11 - INTERNAL TRUST ARRANGEMENTS:

a) Capital Asset Improvement Sinking Fund:

In 1967, the City sold its electric utility facilities and placed the disposition proceeds in a trust fund to be used to purchase capital additions, improvements, or betterments, as permissible by law. Net realized investment income is to be distributed as follows:

- One fifth (1/5) retained by the fund;
- Two fifths (2/5) transferred to General Fund; and
- Two fifths (2/5) transferred to another trust fund (Capital Reserve Sinking Fund)

b) Capital Reserve Sinking Fund:

The City established a trust fund to account for certain investment income of the Capital Asset Improvement Sinking Fund (see above). Net assets of this fund shall not exceed \$1,000,000, which may be used to purchase capital additions, improvements, or betterments, as approved by a three fifths (3/5) majority vote of qualified voters of the City. The fund currently has net assets of \$301,813 as of June 30, 2008.

NOTE 12 - ECONOMIC DEPENDENCY:

For the year ended June 30, 2008, the City received approximately 36% of its property tax revenues and 33% of its utility revenues from one industrial property owner.

NOTE 13 - RISK MANAGEMENT:

The City is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, and employee medical claims. The risks of loss arising from general liability up to \$5,000,000, property losses, workers' compensation, and employee medical costs are managed through purchased commercial insurance. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 14 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2008, is as follows:

Revenues	\$ 21,169
Expenses	<u>69,723</u>
Deficiency of revenues over expenses	<u>\$ (48,554)</u>

NOTE 15 - CONSTRUCTION COMMITMENT:

At June 30, 2008, the City had authorized a contract totaling \$481,118 for local street paving projects. The improvements are being funded by available resources in the Local Street Fund and a required match from the General Fund. Costs incurred through June 30, 2008, were \$183,059, leaving a commitment of \$298,059.

NOTE 16 - SUBSEQUENT EVENTS:

Asset transfer - In September 2008, the City entered into an agreement which established the Allegan District Library. As part of the agreement, the City transferred the personal property of the Allegan Public Library to the newly created entity.

Bond issuance - In October 2008, the City issued \$7,700,000 of revenue bonds to finance the construction of wastewater treatment plant upgrades. The interest rate on the bonds is 2.5% and the maturity date is in 2028.

NOTE 17 - PRIOR PERIOD ADJUSTMENT:

A prior period adjustment has been recorded in 2008 that resulted in a restatement of equity. Equity as of July 1, 2007, included in the accompanying financial statements, represents a restated balance as presented below. The following schedule identifies the nature and amount of the adjustment recorded.

	<u>Net Assets</u> <u>Governmental</u> <u>Activities</u>
Beginning of year, as previously reported	\$ 11,798,325
Prior period adjustment:	
Understatement of long-term debt	<u>(145,229)</u>
Beginning of year, as restated	<u>\$ 11,653,096</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Allegan**BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended June 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 3,005,700	\$ 3,005,700	\$ 2,980,275	\$ (25,425)
Licenses and permits	25,000	25,000	21,169	(3,831)
State grants	487,400	487,400	549,143	61,743
Contributions from local units	14,150	14,150	11,982	(2,168)
Charges for services	101,000	101,000	73,562	(27,438)
Fines and forfeitures	34,335	34,335	25,456	(8,879)
Investment return and rentals	271,000	271,000	297,353	26,353
Other	74,600	74,600	67,338	(7,262)
Total revenues	<u>4,013,185</u>	<u>4,013,185</u>	<u>4,026,278</u>	<u>13,093</u>
EXPENDITURES				
Legislative	16,215	16,215	14,590	1,625
General government	889,750	889,750	841,075	48,675
Public safety	1,732,171	1,732,171	1,596,747	135,424
Public works	169,282	169,282	160,964	8,318
Recreation and culture	539,335	539,335	461,796	77,539
Capital outlay	326,700	326,700	187,456	139,244
Debt service:				
Principal	139,477	139,477	130,078	9,399
Interest	69,408	69,408	61,852	7,556
Total expenditures	<u>3,882,338</u>	<u>3,882,338</u>	<u>3,454,558</u>	<u>427,780</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>130,847</u>	<u>130,847</u>	<u>571,720</u>	<u>440,873</u>

City of Allegan

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended June 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in -				
Capital Asset Improvement Fund	\$ 105,000	\$ 105,000	\$ 104,918	\$ (82)
Transfers out:				
Capital Projects Fund	(425,112)	(425,112)	(424,716)	396
Local Street Fund	(269,000)	(269,000)	(190,000)	79,000
Cemetery Perpetual Care Fund	-	(54,907)	(54,907)	-
Major Street Fund	(109,000)	(109,000)	(10,000)	99,000
Theatre Fund	(4,000)	(4,000)	(2,000)	2,000
Total transfers out	<u>(807,112)</u>	<u>(862,019)</u>	<u>(681,623)</u>	<u>180,396</u>
Total financing uses	<u>(702,112)</u>	<u>(757,019)</u>	<u>(576,705)</u>	<u>180,314</u>
NET CHANGE IN FUND BALANCES	(571,265)	(626,172)	(4,985)	621,187
FUND BALANCES - BEGINNING	<u>1,752,556</u>	<u>1,752,556</u>	<u>1,752,556</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 1,181,291</u>	<u>\$ 1,126,384</u>	<u>\$ 1,747,571</u>	<u>\$ 621,187</u>

City of Allegan

BUDGETARY COMPARISON SCHEDULE - Capital Projects Fund

Year ended June 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Federal grants	\$ 5,300	\$ 5,300	\$ 5,282	\$ (18)
Interest	3,000	3,000	2,666	(334)
Other	<u>14,657</u>	<u>14,657</u>	<u>13,863</u>	<u>(794)</u>
Total revenues	<u>22,957</u>	<u>22,957</u>	<u>21,811</u>	<u>(1,146)</u>
EXPENDITURES				
Public works	459,100	459,100	457,647	1,453
Debt service:				
Principal	337,302	337,302	337,302	-
Interest and fees	<u>80,310</u>	<u>80,310</u>	<u>80,221</u>	<u>89</u>
Total expenditures	<u>876,712</u>	<u>876,712</u>	<u>875,170</u>	<u>1,542</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(853,755)	(853,755)	(853,359)	396
OTHER FINANCING SOURCES				
Transfer in - General Fund	<u>425,112</u>	<u>425,112</u>	<u>424,716</u>	<u>(396)</u>
NET CHANGE IN FUND BALANCES	(428,643)	(428,643)	(428,643)	-
FUND BALANCES - BEGINNING	<u>428,643</u>	<u>428,643</u>	<u>428,643</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*City of Allegan***BUDGETARY COMPARISON SCHEDULE - Capital Asset Improvement Sinking Fund***Year ended June 30, 2008*

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Investment return	\$ 114,800	\$ 114,800	\$ 187,339	\$ 72,539
OTHER FINANCING USES				
Transfers out:				
General Fund	(105,000)	(105,000)	(104,918)	82
Capital Reserve Fund	<u>(55,000)</u>	<u>(55,000)</u>	<u>(54,918)</u>	<u>82</u>
	<u>(160,000)</u>	<u>(160,000)</u>	<u>(159,836)</u>	<u>164</u>
NET CHANGE IN FUND BALANCES	(45,200)	(45,200)	27,503	72,703
FUND BALANCES - BEGINNING	<u>2,980,118</u>	<u>2,980,118</u>	<u>2,980,118</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 2,934,918</u>	<u>\$ 2,934,918</u>	<u>\$ 3,007,621</u>	<u>\$ 72,703</u>

City of Allegan
SCHEDULE OF FUNDING PROGRESS
Employee Retirement System
(Municipal Employees' Retirement System of Michigan)

<i>Actuarial valuation date <u>December 31</u></i>	<i>Actuarial value of assets <u>(a)</u></i>	<i>Actuarial accrued liability (AAL) entry age <u>(b)</u></i>	<i>Unfunded AAL (UAAL) <u>(b-a)</u></i>	<i>Funded ratio <u>(a/b)</u></i>	<i>Covered payroll <u>(c)</u></i>	<i>UAAL as a percentage of covered payroll <u>((b-a)/c)</u></i>
1998	\$ 569,429	\$1,372,114	\$ 802,685	42%	\$436,484	184%
1999	700,302	1,357,238	656,936	52%	516,070	127%
2000	834,553	1,784,575	950,022	47%	530,507	179%
2001	970,738	2,065,680	1,094,942	47%	547,012	200%
2002	1,077,201	2,354,012	1,276,811	46%	612,731	208%
2003	1,288,152	2,605,583	1,317,431	49%	535,918	246%
2004	1,429,189	2,770,066	1,340,877	52%	580,215	231%
2005	1,595,582	3,025,643	1,430,061	53%	590,820	242%
2006	1,804,868	3,120,487	1,315,619	58%	613,332	215%
2007	2,061,643	3,381,475	1,319,832	61%	662,438	199%

SUPPLEMENTARY INFORMATION

City of Allegan**COMBINING BALANCE SHEET - nonmajor governmental funds**

June 30, 2008

	<u>Major Street</u>	<u>Local Street</u>	<u>Wellness Center</u>	<u>Library</u>
ASSETS				
Cash	\$ 369,914	\$ 68,609	\$ -	\$ 231,417
Investments	-	-	-	-
Receivables	76,707	14,823	-	13,526
Due from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 446,621</u>	<u>\$ 83,432</u>	<u>\$ -</u>	<u>\$ 244,943</u>
LIABILITIES AND FUND BALANCES				
Liabilities - payables	<u>\$ 2,822</u>	<u>\$ 2,916</u>	<u>\$ -</u>	<u>\$ 35,747</u>
Fund balances:				
Reserved:				
Donor restrictions for Library expenditures	-	-	-	17,583
Cemetery perpetual care	-	-	-	-
Unreserved:				
Designated	-	-	-	61,795
Undesignated	<u>443,799</u>	<u>80,516</u>	<u>-</u>	<u>129,818</u>
Total fund balances	<u>443,799</u>	<u>80,516</u>	<u>-</u>	<u>209,196</u>
Total liabilities and fund balances	<u>\$ 446,621</u>	<u>\$ 83,432</u>	<u>\$ -</u>	<u>\$ 244,943</u>

<u>Revolving Loan</u>	<u>Economic Development</u>	<u>Theatre</u>	<u>Cemetery Perpetual Care</u>	<u>Auditorium and Library</u>	<u>Capital Reserve</u>	<u>Total nonmajor governmental funds</u>
\$ -	\$ 37,046	\$ 3,952	\$ 54,214	\$ 23,895	\$ 196,039	\$ 985,086
-	-	-	-	-	50,856	50,856
-	-	1,982	-	-	-	107,038
-	-	-	98,287	-	54,918	153,205
<u>\$ -</u>	<u>\$ 37,046</u>	<u>\$ 5,934</u>	<u>\$ 152,501</u>	<u>\$ 23,895</u>	<u>\$ 301,813</u>	<u>\$ 1,296,185</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,613</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,098</u>
-	-	-	-	-	-	17,583
-	-	-	152,501	-	-	152,501
-	-	-	-	-	-	61,795
-	37,046	1,321	-	23,895	301,813	1,018,208
-	37,046	1,321	152,501	23,895	301,813	1,250,087
<u>\$ -</u>	<u>\$ 37,046</u>	<u>\$ 5,934</u>	<u>\$ 152,501</u>	<u>\$ 23,895</u>	<u>\$ 301,813</u>	<u>\$ 1,296,185</u>

*City of Allegan***COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - nonmajor governmental funds***Year ended June 30, 2008*

	<u>Major Street</u>	<u>Local Street</u>	<u>Wellness Center</u>	<u>Library</u>
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ 246,825
State grants	249,266	106,426	-	17,593
Contributions from local units	79,180	90,000	-	36,800
Charges for services	59,026	-	-	-
Fines and forfeitures	-	-	-	106,683
Interest and rentals	14,075	7,250	-	5,579
Other	<u>7,681</u>	<u>2,224</u>	<u>-</u>	<u>15,969</u>
Total revenues	<u>409,228</u>	<u>205,900</u>	<u>-</u>	<u>429,449</u>
EXPENDITURES				
General government	-	-	-	-
Public works	304,562	344,890	-	-
Community and economic development	-	-	-	-
Recreation and culture	-	-	9,180	440,974
Capital outlay	-	-	-	24,675
Debt service - principal	<u>35,000</u>	<u>45,000</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>339,562</u>	<u>389,890</u>	<u>9,180</u>	<u>465,649</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	69,666	(183,990)	(9,180)	(36,200)
OTHER FINANCING SOURCES				
Transfers in	<u>10,000</u>	<u>190,000</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	79,666	6,010	(9,180)	(36,200)
FUND BALANCES - BEGINNING	<u>364,133</u>	<u>74,506</u>	<u>9,180</u>	<u>245,396</u>
FUND BALANCES - ENDING	<u>\$ 443,799</u>	<u>\$ 80,516</u>	<u>\$ -</u>	<u>\$ 209,196</u>

<u>Revolving Loan</u>	<u>Economic Development</u>	<u>Theatre</u>	<u>Cemetery Perpetual Care</u>	<u>Auditorium and Library</u>	<u>Capital Reserve</u>	<u>Total nonmajor governmental funds</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 246,825
-	-	31,000	-	-	-	404,285
-	-	-	-	-	-	205,980
-	-	122,517	-	-	-	181,543
-	-	-	-	-	-	106,683
-	-	3,442	11	1,122	12,955	44,434
-	54,495	4,992	165	-	-	85,526
-	54,495	161,951	176	1,122	12,955	1,275,276
3,236	-	-	513	-	-	3,749
357	-	-	-	-	-	649,809
-	34,437	-	-	-	-	34,437
-	-	145,153	-	-	-	595,307
-	-	24,606	9,823	-	-	59,104
-	-	-	-	-	-	80,000
3,593	34,437	169,759	10,336	-	-	1,422,406
(3,593)	20,058	(7,808)	(10,160)	1,122	12,955	(147,130)
-	-	2,000	54,907	-	54,918	311,825
(3,593)	20,058	(5,808)	44,747	1,122	67,873	164,695
3,593	16,988	7,129	107,754	22,773	233,940	1,085,392
<u>\$ -</u>	<u>\$ 37,046</u>	<u>\$ 1,321</u>	<u>\$ 152,501</u>	<u>\$ 23,895</u>	<u>\$ 301,813</u>	<u>\$ 1,250,087</u>

*City of Allegan***STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - General Fund***Year ended June 30, 2008*

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
Property taxes	\$ 3,005,700	\$ 2,980,275	\$ (25,425)
Licenses and permits	25,000	21,169	(3,831)
State grants	487,400	549,143	61,743
Contributions from local units	14,150	11,982	(2,168)
Charges for services	101,000	73,562	(27,438)
Fines and forfeitures	34,335	25,456	(8,879)
Investment return and rentals	271,000	297,353	26,353
Other	74,600	67,338	(7,262)
	<u>4,013,185</u>	<u>4,026,278</u>	<u>13,093</u>
Total revenues			
EXPENDITURES			
Legislative - City Council	<u>16,215</u>	<u>14,590</u>	<u>1,625</u>
General government:			
Manager	268,715	267,364	1,351
Elections	11,500	4,537	6,963
Assessor	42,060	40,981	1,079
Legal fees	55,000	55,258	(258)
Treasurer	268,135	259,816	8,319
City hall	70,325	68,337	1,988
Building and grounds	351,060	333,727	17,333
Cemetery	76,215	68,790	7,425
Other	10,500	9,975	525
Administration fees	<u>(263,760)</u>	<u>(267,710)</u>	<u>3,950</u>
Total general government	<u>889,750</u>	<u>841,075</u>	<u>48,675</u>
Public safety:			
Police department	1,362,541	1,291,567	70,974
Fire protection	231,375	192,674	38,701
Inspections department	<u>138,255</u>	<u>112,506</u>	<u>25,749</u>
Total public safety	<u>1,732,171</u>	<u>1,596,747</u>	<u>135,424</u>

City of Allegan

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - *General Fund* (Continued)**

Year ended June 30, 2008

	<u><i>Amended Budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
EXPENDITURES (Continued)			
Public works:			
Street lighting	\$ 80,000	\$ 72,527	\$ 7,473
Airport	65,282	65,330	(48)
Brownfield	24,000	23,107	893
Total public works	<u>169,282</u>	<u>160,964</u>	<u>8,318</u>
Recreation and culture:			
Griswold Auditorium	101,465	92,715	8,750
Parks and recreation	328,935	267,523	61,412
Historic Commission	2,170	1,819	351
Arts and entertainment	106,765	99,739	7,026
Total recreation and culture	<u>539,335</u>	<u>461,796</u>	<u>77,539</u>
Capital outlay	<u>326,700</u>	<u>187,456</u>	<u>139,244</u>
Debt service - principal	<u>139,477</u>	<u>130,078</u>	<u>9,399</u>
Debt service - interest	<u>69,408</u>	<u>61,852</u>	<u>7,556</u>
Total expenditures	<u>3,882,338</u>	<u>3,454,558</u>	<u>427,780</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>130,847</u>	<u>571,720</u>	<u>440,873</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	100,000	104,918	4,918
Transfers out	<u>(807,112)</u>	<u>(681,623)</u>	<u>125,489</u>
Total other financing uses	<u>(707,112)</u>	<u>(576,705)</u>	<u>130,407</u>
NET CHANGE IN FUND BALANCES	<u>(576,265)</u>	<u>(4,985)</u>	<u>571,280</u>
FUND BALANCES - BEGINNING	<u>1,752,556</u>	<u>1,752,556</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 1,176,291</u>	<u>\$ 1,747,571</u>	<u>\$ 571,280</u>

City of Allegan

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - Major Street Fund**

Year ended June 30, 2008

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
State grants	\$ 258,000	\$ 249,266	\$ (8,734)
Contribution from local unit	50,000	79,180	29,180
Charges for services	35,200	59,026	23,826
Interest	-	14,075	14,075
Other	<u>8,000</u>	<u>7,681</u>	<u>(319)</u>
Total revenues	<u>351,200</u>	<u>409,228</u>	<u>58,028</u>
EXPENDITURES			
Public works:			
Street preservation	301,565	186,162	115,403
Bridge maintenance	3,985	1,733	2,252
Traffic services	25,430	19,593	5,837
Winter maintenance	86,760	76,648	10,112
Surface maintenance	35,200	14,787	20,413
Traffic signals	<u>7,000</u>	<u>5,639</u>	<u>1,361</u>
Total public works	459,940	304,562	155,378
Debt service - principal	<u>35,000</u>	<u>35,000</u>	<u>-</u>
Total expenditures	<u>494,940</u>	<u>339,562</u>	<u>155,378</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(143,740)	69,666	213,406
OTHER FINANCING SOURCES			
Transfer in - General Fund	<u>109,000</u>	<u>10,000</u>	<u>(99,000)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	(34,740)	79,666	114,406
FUND BALANCES - BEGINNING	<u>364,133</u>	<u>364,133</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 329,393</u>	<u>\$ 443,799</u>	<u>\$ 114,406</u>

*City of Allegan***STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - Local Street Fund***Year ended June 30, 2008*

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
State grants	\$ 110,500	\$ 106,426	\$ (4,074)
Contribution from local unit	70,000	90,000	20,000
Interest	-	7,250	7,250
Other	<u>5,300</u>	<u>2,224</u>	<u>(3,076)</u>
Total revenues	<u>185,800</u>	<u>205,900</u>	<u>20,100</u>
EXPENDITURES			
Public works:			
Street preservation	411,715	306,780	104,935
Traffic services	6,920	5,293	1,627
Winter maintenance	<u>35,600</u>	<u>32,817</u>	<u>2,783</u>
Total public works	454,235	344,890	109,345
Debt service - principal	<u>45,000</u>	<u>45,000</u>	<u>-</u>
Total expenditures	<u>499,235</u>	<u>389,890</u>	<u>109,345</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(313,435)	(183,990)	129,445
OTHER FINANCING SOURCES			
Transfer in - General Fund	<u>269,000</u>	<u>190,000</u>	<u>(79,000)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	(44,435)	6,010	50,445
FUND BALANCES - BEGINNING	<u>74,506</u>	<u>74,506</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 30,071</u>	<u>\$ 80,516</u>	<u>\$ 50,445</u>

City of Allegan

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - Wellness Center Fund**

Year ended June 30, 2008

	<u><i>Amended budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
EXPENDITURES			
Recreation and culture	<u>\$ 9,180</u>	<u>\$ 9,180</u>	<u>\$ -</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(9,180)</u>	<u>(9,180)</u>	<u>-</u>
FUND BALANCES - BEGINNING	<u>9,180</u>	<u>9,180</u>	<u>-</u>
FUND BALANCES - ENDING	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

*City of Allegan***STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - Library Fund***Year ended June 30, 2008*

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
Property taxes	\$ 245,000	\$ 246,825	\$ 1,825
State grants	6,670	17,593	10,923
Contributions from local units	36,300	36,800	500
Fines and forfeitures:			
Penal fines	108,000	92,527	(15,473)
Other	13,000	14,156	1,156
Investment return	4,500	5,579	1,079
Other	15,500	15,969	469
	<u>428,970</u>	<u>429,449</u>	<u>479</u>
Total revenues			
EXPENDITURES			
Recreation and culture	443,194	440,974	2,220
Capital outlay	43,400	24,675	18,725
	<u>486,594</u>	<u>465,649</u>	<u>20,945</u>
Total expenditures			
DEFICIENCY OF REVENUES OVER EXPENDITURES	(57,624)	(36,200)	21,424
FUND BALANCES - BEGINNING	<u>245,396</u>	<u>245,396</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 187,772</u>	<u>\$ 209,196</u>	<u>\$ 21,424</u>

City of Allegan

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - *Revolving Loan Fund***

Year ended June 30, 2008

	<u><i>Amended budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
EXPENDITURES			
General government	\$ 3,236	\$ 3,236	\$ -
Public works	<u>357</u>	<u>357</u>	<u>-</u>
Total expenditures	<u>3,593</u>	<u>3,593</u>	<u>-</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(3,593)	(3,593)	-
FUND BALANCES - BEGINNING	<u>3,593</u>	<u>3,593</u>	<u>-</u>
FUND BALANCES - ENDING	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

City of Allegan

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - *Economic Development Fund***

Year ended June 30, 2008

	<u><i>Amended budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
REVENUES			
Other - land sale	\$ 45,000	\$ 54,495	\$ 9,495
EXPENDITURES			
Community and economic development	<u>37,320</u>	<u>34,437</u>	<u>2,883</u>
EXCESS OF REVENUES OVER EXPENDITURES	7,680	20,058	12,378
FUND BALANCES - BEGINNING	<u>16,988</u>	<u>16,988</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 24,668</u>	<u>\$ 37,046</u>	<u>\$ 12,378</u>

*City of Allegan***STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - Theatre Fund***Year ended June 30, 2008*

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
State grants	\$ 31,000	\$ 31,000	\$ -
Charges for services	132,500	122,517	(9,983)
Building rentals	3,000	3,442	442
Other	<u>7,000</u>	<u>4,992</u>	<u>(2,008)</u>
Total revenues	<u>173,500</u>	<u>161,951</u>	<u>(11,549)</u>
EXPENDITURES			
Recreation and culture	148,405	145,153	3,252
Capital outlay	<u>25,000</u>	<u>24,606</u>	<u>394</u>
Total expenditures	<u>173,405</u>	<u>169,759</u>	<u>3,646</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	95	(7,808)	(7,903)
OTHER FINANCING SOURCES			
Transfer in - General Fund	<u>4,000</u>	<u>2,000</u>	<u>(2,000)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	4,095	(5,808)	(9,903)
FUND BALANCES - BEGINNING	<u>7,129</u>	<u>7,129</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 11,224</u>	<u>\$ 1,321</u>	<u>\$ (9,903)</u>

*City of Allegan***STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - Cemetery Perpetual Care Fund***Year ended June 30, 2008*

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
Interest	\$ 100	\$ 11	\$ (89)
Other - contributions	<u>200</u>	<u>165</u>	<u>(35)</u>
Total revenues	<u>300</u>	<u>176</u>	<u>(124)</u>
 EXPENDITURES			
General government	300	513	(213)
Capital outlay	<u>20,000</u>	<u>9,823</u>	<u>10,177</u>
Total expenditures	<u>20,300</u>	<u>10,336</u>	<u>9,964</u>
 DEFICIENCY OF REVENUES OVER EXPENDITURES	(20,000)	(10,160)	9,840
 OTHER FINANCING SOURCES			
Transfer in - General Fund	<u>-</u>	<u>54,907</u>	<u>54,907</u>
 EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	(20,000)	44,747	64,747
 FUND BALANCES - BEGINNING	<u>107,754</u>	<u>107,754</u>	<u>-</u>
 FUND BALANCES - ENDING	<u>\$ 87,754</u>	<u>\$ 152,501</u>	<u>\$ 64,747</u>

City of Allegan

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - Auditorium and Library Fund**

Year ended June 30, 2008

	<u><i>Amended budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
REVENUES			
Investment return	<u>\$ -</u>	<u>\$ 1,122</u>	<u>\$ 1,122</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>1,122</u>	<u>1,122</u>
FUND BALANCES - BEGINNING	<u>22,773</u>	<u>22,773</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 22,773</u>	<u>\$ 23,895</u>	<u>\$ 1,122</u>

City of Allegan

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - *Capital Reserve Fund***

Year ended June 30, 2008

	<u><i>Amended budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
REVENUES			
Investment return	\$ 3,600	\$ 12,955	\$ 9,355
OTHER FINANCING SOURCES			
Transfer in - Capital Asset Improvement Fund	<u>45,000</u>	<u>54,918</u>	<u>9,918</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	48,600	67,873	19,273
FUND BALANCES - BEGINNING	<u>233,940</u>	<u>233,940</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 282,540</u>	<u>\$ 301,813</u>	<u>\$ 19,273</u>

COMBINING STATEMENT OF NET ASSETS - internal service funds

June 30, 2008

	<i><u>Motor Vehicle and Equipment</u></i>	<i><u>Insurance</u></i>	<i><u>Totals</u></i>
ASSETS			
Current assets - cash	\$ 45,830	\$ 3,373	\$ 49,203
Noncurrent assets - capital assets, net of depreciation	<u>627,810</u>	<u>-</u>	<u>627,810</u>
Total assets	<u>673,640</u>	<u>3,373</u>	<u>677,013</u>
LIABILITIES			
Current liabilities - payables	<u>5,175</u>	<u>1,166</u>	<u>6,341</u>
NET ASSETS			
Invested in capital assets	627,810	-	627,810
Unrestricted	<u>40,655</u>	<u>2,207</u>	<u>42,862</u>
Total net assets	<u>\$ 668,465</u>	<u>\$ 2,207</u>	<u>\$ 670,672</u>

*City of Allegan***COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS - *internal service funds****Year ended June 30, 2008*

	<u>Motor Vehicle and Equipment</u>	<u>Insurance</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for services:			
Equipment rentals	\$ 238,001	\$ -	\$ 238,001
Insurances	-	598,608	598,608
Other	<u>6,115</u>	<u>-</u>	<u>6,115</u>
Total operating revenues	<u>244,116</u>	<u>598,608</u>	<u>842,724</u>
OPERATING EXPENSES			
Costs of services	210,977	-	210,977
Fringe benefits	-	628,492	628,492
Depreciation	<u>101,572</u>	<u>-</u>	<u>101,572</u>
Total operating expenses	<u>312,549</u>	<u>628,492</u>	<u>941,041</u>
OPERATING LOSS	<u>(68,433)</u>	<u>(29,884)</u>	<u>(98,317)</u>
NONOPERATING REVENUE			
Loss on sale of capital assets	(3,533)	-	(3,533)
Interest revenue	<u>5,949</u>	<u>1,071</u>	<u>7,020</u>
Total nonoperating revenues	<u>2,416</u>	<u>1,071</u>	<u>3,487</u>
CHANGE IN NET ASSETS	(66,017)	(28,813)	(94,830)
NET ASSETS - BEGINNING	<u>734,482</u>	<u>31,020</u>	<u>765,502</u>
NET ASSETS - ENDING	<u>\$ 668,465</u>	<u>\$ 2,207</u>	<u>\$ 670,672</u>

COMBINING STATEMENT OF CASH FLOWS - internal service funds

Year ended June 30, 2008

	<i>Motor Vehicle and Equipment</i>	<i>Insurance</i>	<i>Totals</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from interfund services provided	\$ 244,116	\$ 598,608	\$ 842,724
Payments to vendors and suppliers	(167,815)	(627,326)	(795,141)
Payments to employees	(42,315)	-	(42,315)
Net cash provided by (used in) operating activities	33,986	(28,718)	5,268
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(116,850)	-	(116,850)
CASH FLOWS FROM INVESTING ACTIVITIES			
Redemption of investments	96,676	-	96,676
Interest received	5,949	1,071	7,020
Net cash provided by investing activities	102,625	1,071	103,696
NET INCREASE (DECREASE) IN CASH	19,761	(27,647)	(7,886)
CASH - BEGINNING	26,069	31,020	57,089
CASH - ENDING	<u>\$ 45,830</u>	<u>\$ 3,373</u>	<u>\$ 49,203</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (68,433)	\$ (29,884)	\$ (98,317)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation	101,572	-	101,572
Increase in payables	847	1,166	2,013
Net cash provided by (used in) operating activities	<u>\$ 33,986</u>	<u>\$ (28,718)</u>	<u>\$ 5,268</u>

SUPPLEMENTARY DATA

City of Allegan

**SCHEDULE OF BOND RETIREMENT AND ANNUAL INTEREST REQUIREMENTS -
\$3,000,000 1998 GENERAL OBLIGATION TAX IMPROVEMENT BONDS**

June 30, 2008

<i><u>Fiscal period</u></i>	<i><u>Interest requirements</u></i>		<i><u>Maturity date</u></i>	<i><u>Principal</u></i>	<i><u>Total requirements</u></i>
	<i><u>November 1</u></i>	<i><u>May 1</u></i>			
2009	\$ 36,845	\$ 30,433	11/01/08	\$ 285,000	\$ 352,278
2010	30,433	23,533	11/01/09	300,000	353,966
2011	23,533	16,130	11/01/10	315,000	354,663
2012	16,130	8,330	11/01/11	325,000	349,460
2013	8,330	-	11/01/12	340,000	348,330
	<u>\$ 115,271</u>	<u>\$ 78,426</u>		<u>\$ 1,565,000</u>	<u>\$ 1,758,697</u>

City of Allegan

**SCHEDULE OF NOTE RETIREMENT AND ANNUAL INTEREST REQUIREMENTS -
\$607,000 1999 INSTALLMENT PURCHASE AGREEMENT NOTE PAYABLE**

June 30, 2008

<i><u>Fiscal period</u></i>	<i><u>Interest requirements August 1</u></i>	<i><u>Maturity date</u></i>	<i><u>Principal</u></i>	<i><u>Total requirements</u></i>
2009	\$ 9,859	08/01/08	\$ 57,141	\$ 67,000
2010	7,087	08/01/09	59,913	67,000
2011	<u>2,114</u>	08/01/10	<u>89,192</u>	<u>91,306</u>
	<u>\$ 19,060</u>		<u>\$ 206,246</u>	<u>\$ 225,306</u>

City of Allegan

SCHEDULE OF LOAN RETIREMENT -

\$1,373,796 1998 MICHIGAN ECONOMIC DEVELOPMENT CORPORATION NOTE

June 30, 2008

<u><i>Fiscal period</i></u>	<u><i>Principal</i></u>
2009	\$ 62,302
2010	62,302
2011	62,302
2012	62,302
2013	<u>62,301</u>
	<u>\$ 311,509</u>

City of Allegan

**SCHEDULE OF BOND RETIREMENT AND ANNUAL INTEREST REQUIREMENTS -
\$360,000 2004 USDA AIRPORT REVENUE BONDS**

June 30, 2008

<i><u>Fiscal period</u></i>	<i><u>Interest requirements</u></i>		<i><u>Maturity date</u></i>	<i><u>Principal</u></i>	<i><u>Total requirements</u></i>
	<i><u>July 1</u></i>	<i><u>January 1</u></i>			
2009	\$ 7,036	\$ 6,942	07/01/08	\$ 8,000	\$ 21,978
2010	6,828	6,770	07/01/09	8,000	21,598
2011	6,660	6,599	07/01/10	8,000	21,259
2012	6,491	6,427	07/01/11	8,000	20,918
2013	6,358	6,256	07/01/12	8,000	20,614
2014	6,154	6,063	07/01/13	9,000	21,217
2015	5,964	5,870	07/01/14	9,000	20,834
2016	5,775	5,678	07/01/15	9,000	20,453
2017	5,616	5,463	07/01/16	10,000	21,079
2018	5,374	5,249	07/01/17	10,000	20,623
2019	5,163	5,035	07/01/18	10,000	20,198
2020	4,953	4,799	07/01/19	11,000	20,752
2021	4,747	4,542	07/01/20	12,000	21,289
2022	4,468	4,285	07/01/21	12,000	20,753
2023	4,215	4,006	07/01/22	13,000	21,221
2024	3,941	3,728	07/01/23	13,000	20,669
2025	3,687	3,428	07/01/24	14,000	21,115
2026	3,372	3,107	07/01/25	15,000	21,479
2027	3,056	2,785	07/01/26	15,000	20,841
2028	2,740	2,442	07/01/27	16,000	21,182
2029	2,416	2,078	07/01/28	17,000	21,494
2030	2,044	1,693	07/01/29	18,000	21,737
2031	1,665	1,307	07/01/30	18,000	20,972
2032	1,286	900	07/01/31	19,000	21,186
2033	890	450	07/01/32	21,000	22,340
2034	442	-	07/01/33	21,000	21,442
	<u>\$ 111,341</u>	<u>\$ 105,902</u>		<u>\$ 332,000</u>	<u>\$ 549,243</u>

City of Allegan

SCHEDULE OF LOAN RETIREMENT -

\$359,365 2006 MICHIGAN ECONOMIC DEVELOPMENT CORPORATION NOTE

June 30, 2008

<u><i>Fiscal period</i></u>	<u><i>Principal</i></u>
2009	\$ 35,937
2010	35,937
2011	35,937
2012	<u>1,481</u>
	<u>\$ 109,292</u>

City of Allegan

**SCHEDULE OF BOND RETIREMENT AND ANNUAL INTEREST REQUIREMENTS -
\$850,000 1996 WATER SUPPLY SYSTEM REVENUE BONDS**

June 30, 2008

<i><u>Fiscal period</u></i>	<i><u>Interest requirements</u></i>		<i><u>Maturity date</u></i>	<i><u>Principal</u></i>	<i><u>Total requirements</u></i>
	<i><u>November 1</u></i>	<i><u>May 1</u></i>			
2009	\$ 7,255	\$ 7,255	05/01/09	\$ 80,000	\$ 94,510
2010	4,975	4,975	05/01/10	80,000	89,950
2011	<u>2,655</u>	<u>2,655</u>	05/01/11	<u>90,000</u>	<u>95,310</u>
	<u>\$ 14,885</u>	<u>\$ 14,885</u>		<u>\$ 250,000</u>	<u>\$ 279,770</u>

City of Allegan

**SCHEDULE OF BOND RETIREMENT AND ANNUAL INTEREST REQUIREMENTS -
\$650,000 2001 WATER SUPPLY SYSTEM REVENUE BONDS**

June 30, 2008

<i><u>Fiscal period</u></i>	<i><u>Interest requirements</u></i>		<i><u>Maturity date</u></i>	<i><u>Principal</u></i>	<i><u>Total requirements</u></i>
	<i><u>November 1</u></i>	<i><u>May 1</u></i>			
2009	\$ 9,746	\$ 9,746	05/01/09	\$ 45,000	\$ 64,492
2010	8,756	8,756	05/01/10	45,000	62,512
2011	7,733	7,733	05/01/11	45,000	60,466
2012	6,675	6,675	05/01/12	50,000	63,350
2013	5,475	5,475	05/01/13	50,000	60,950
2014	4,250	4,250	05/01/14	55,000	63,500
2015	2,875	2,875	05/01/15	55,000	60,750
2016	<u>1,500</u>	<u>1,500</u>	05/01/16	<u>60,000</u>	<u>63,000</u>
	<u>\$ 47,010</u>	<u>\$ 47,010</u>		<u>\$ 405,000</u>	<u>\$ 499,020</u>

City of Allegan

SCHEDULE OF BOND RETIREMENT AND ANNUAL INTEREST REQUIREMENTS -

\$7,200,000 2004 CAPITAL IMPROVEMENT BONDS

June 30, 2008

<u>Fiscal period</u>	<u>Interest requirements</u>		<u>Maturity date</u>	<u>Principal</u>	<u>Total requirements</u>
	<u>November 1</u>	<u>May 1</u>			
2009	\$ 154,776	\$ 154,776	05/01/09	\$ 245,000	\$ 554,552
2010	149,876	149,876	05/01/10	260,000	559,752
2011	144,676	144,676	05/01/11	270,000	559,352
2012	138,601	138,601	05/01/12	280,000	557,202
2013	132,301	132,301	05/01/13	290,000	554,602
2014	125,051	125,051	05/01/14	305,000	555,102
2015	117,426	117,426	05/01/15	325,000	559,852
2016	110,114	110,114	05/01/16	340,000	560,228
2017	102,464	102,464	05/01/17	355,000	559,928
2018	93,145	93,145	05/01/18	370,000	556,290
2019	83,433	83,433	05/01/19	390,000	556,866
2020	73,195	73,195	05/01/20	220,000	366,390
2021	67,475	67,475	05/01/21	230,000	364,950
2022	61,495	61,495	05/01/22	245,000	367,990
2023	55,125	55,125	05/01/23	255,000	365,250
2024	48,495	48,495	05/01/24	270,000	366,990
2025	41,475	41,475	05/01/25	285,000	367,950
2026	33,994	33,994	05/01/26	300,000	367,988
2027	26,119	26,119	05/01/27	315,000	367,238
2028	17,850	17,850	05/01/28	330,000	365,700
2029	9,188	9,188	05/01/29	350,000	368,376
	<u>\$ 1,786,274</u>	<u>\$ 1,786,274</u>		<u>\$ 6,230,000</u>	<u>\$ 9,802,548</u>
			<u>Interest</u>	<u>Principal</u>	<u>Total</u>
Allocation by activity:					
Governmental activities			\$ 1,534,008	\$ 2,675,085	\$ 4,209,093
Business-type activities			1,900,914	3,314,915	5,215,829
Component Unit (DDA)			<u>137,626</u>	<u>240,000</u>	<u>377,626</u>
			<u>\$ 3,572,548</u>	<u>\$ 6,230,000</u>	<u>\$ 9,802,548</u>

**SECURITIES AND EXCHANGE COMMISSION RULE 15C2-12 CONTINUING DISCLOSURE
(UNAUDITED)**

**City of Allegan
Taxable Value
Fiscal Years Ended June 30, 2004 Through 2008**

Assessed Value as of December 31	Year of State Equalization and Tax Levy	City of Allegan's Fiscal Years Ended June 30	Ad Valorem Taxable Value	Equivalent Taxable Value of Property Granted Tax Abatement Under Act 198 (1)	Total Taxable Value	Percent Increase Over Prior Year
2002	2003	2004	122,713,077	21,218,606	143,931,683	6.60%
2003	2004	2005	136,392,872	19,106,398	155,499,270	8.04%
2004	2005	2006	142,584,135	19,187,731	161,771,866	4.03%
2005	2006	2007	159,515,081	12,598,426	172,113,507	6.39%
2006	2007	2008	168,019,259	11,099,819	179,119,078	4.07%

Per Capita Total Taxable Value for the Fiscal Year Ending June 30, 2008 (2)..... \$38,670

(1) At the full tax rate. See "Tax Abatement."

(2) Based on City of Allegan's 2000 census population of 4,632.

Source: City of Allegan

**City of Allegan
Total Taxable Value by Use and Class
Fiscal Years Ended June 30, 2004 Through 2008**

Use	Fiscal Years Ended June 30,				
	2004	2005	2006	2007	2008
Agriculture	\$ 9,531	\$ 9,750	\$ 9,974	\$ 14,942	\$ 11,657
Commercial	31,553,955	34,558,414	35,226,577	37,324,135	39,308,192
Industrial	59,159,324	65,231,295	75,037,522	74,660,008	76,110,875
Residential	50,828,951	53,255,111	48,979,493	58,130,993	61,555,654
Utility	2,379,922	2,444,700	2,518,300	1,983,429	2,132,700
	<u>\$ 143,931,683</u>	<u>\$ 155,499,270</u>	<u>\$ 161,771,866</u>	<u>\$ 172,113,507</u>	<u>\$ 179,119,078</u>
Class	Fiscal Years Ended June 30,				
	2004	2005	2006	2007	2008
Real Property	\$ 98,723,279	\$ 105,437,736	\$ 110,423,756	\$ 118,959,328	\$ 125,261,728
Personal Property	45,208,404	50,061,534	51,348,110	53,154,179	53,857,350
	<u>\$ 143,931,683</u>	<u>\$ 155,499,270</u>	<u>\$ 161,771,866</u>	<u>\$ 172,113,507</u>	<u>\$ 179,119,078</u>

Source: City of Allegan

(UNAUDITED)

City of Allegan
State Equalized Valuation
Fiscal Years Ended June 30, 2004 Through 2008

Assessed Value as of December 31	Year of State Equalization and Tax Levy	City of Allegan's Fiscal Years Ended June 30	Ad Valorem SEV	SEV of Property General Tax Abatement Under Act 198 (1)	Total SEV	Percent Increase Over Prior Year
2002	2003	2004	\$ 141,689,300	\$ 52,322,496	\$ 194,011,796	9.99%
2003	2004	2005	155,328,000	44,011,500	199,339,500	2.75%
2004	2005	2006	164,365,800	40,520,600	204,886,400	2.78%
2005	2006	2007	182,366,709	25,258,600	207,625,309	1.34%
2006	2007	2008	191,823,550	22,336,600	214,160,150	3.15%

Per Capita Total SEV for the Fiscal Year Ending June 30, 2008 (2)..... \$46,235

(1) See "Tax Abatement."

(2) Based on City of Allegan's 2000 census population of 4,632.

Source: City of Allegan

City of Allegan
Total SEV by Use and Class
Fiscal Years Ended June 30, 2004 Through 2008

Use	Fiscal Years Ended June 30				
	2004	2005	2006	2007	2008
Agriculture	\$ 54,100	\$ 54,100	\$ 65,300	\$ 18,400	\$ 16,200
Commercial	32,880,091	35,317,767	39,843,450	44,451,120	47,445,800
Industrial	93,076,196	93,359,900	90,182,700	87,592,100	88,179,900
Residential	65,584,400	68,162,962	72,276,650	73,580,260	76,385,550
Utility	2,417,000	2,444,700	2,518,300	1,983,429	2,132,700
	<u>\$ 194,011,787</u>	<u>\$ 199,339,429</u>	<u>\$ 204,886,400</u>	<u>\$ 207,625,309</u>	<u>\$ 214,160,150</u>
Class	Fiscal Years Ended June 30				
	2004	2005	2006	2007	2008
Real Property	\$ 141,045,787	\$ 144,004,529	\$ 147,447,900	\$ 148,220,480	\$ 155,349,750
Personal Property	52,966,000	55,334,900	57,438,500	59,404,829	58,810,400
	<u>\$ 194,011,787</u>	<u>\$ 199,339,429</u>	<u>\$ 204,886,400</u>	<u>\$ 207,625,309</u>	<u>\$ 214,160,150</u>

Source: City of Allegan

(UNAUDITED)

Tax Abatement

The City of Allegan's taxable value does not include the value of certain facilities, which have temporarily been removed from the Ad Valorem Tax Roll pursuant to Act 198 (the Act). The Act was to provide a stimulus in the form of significant tax incentives to industrial enterprises to renovate and expand aging facilities ("Rehab Properties") and to build new facilities ("New Properties"). Except as indicated below, under the provisions of the Act, a local governmental unit (i.e., a city, village, or township) may establish plant rehabilitation districts and industrial development districts and offer industrial firms certain property tax incentives or abatements to encourage restoration or replacement of obsolete facilities and to attract new facilities to the area.

An industrial facilities exemption certificate granted under the Act entitles an eligible facility to exemption from Ad Valorem Taxes for a period of up to 12 years. In lieu of Ad Valorem Taxes, the eligible facility will pay an industrial facilities tax (the "IFT Tax"). For properties granted tax abatement under the Act, there exists a separate tax roll referred to as the industrial facilities tax roll (the "IFT Tax Roll"). The IFT Tax for an obsolete facility, which is being restored or replaced, is determined in exactly the same manner as the Ad Valorem Tax; the important difference being that the value of the property remains at the taxable value level prior to the improvements even though the restoration or replacement substantially increases the value of the facility. For a new facility, the IFT Tax is also determined the same as the Ad Valorem Tax but, instead of using the total mills levied as Ad Valorem Taxes, a lower millage rate is applied. For abatements granted prior to 1994, this millage rate equals $\frac{1}{2}$ of all tax rates levied by other than the state and local school district for operating purposes plus $\frac{1}{2}$ of the 1993 rate levied by the local school district for operating purposes. For abatements granted after 1994, this millage rate equals $\frac{1}{2}$ of all tax rates levied by other than the state plus none, $\frac{1}{2}$, or all of the state tax rate (as determined by the State Treasurer).

The City of Allegan has established goals, objectives, and procedures to provide the opportunity for industrial development and expansion. Since 1974, the City of Allegan has approved a number of applications for local property tax relief for industrial firms. Most abatements have been for new industrial facilities. The SEV of properties, which have been granted tax abatement under the Act, removed from the Ad Valorem Tax Roll, and placed on the IFT Tax Rolls, totaled \$22,199,637 for the fiscal year ending June 30, 2008. The IFT Taxes paid on these properties is equivalent to Ad Valorem Taxes paid on \$11,099,819 of taxable value at the full tax rate (the "Equivalent Taxable Value"). Upon expiration of the industrial facilities exemption certificates, the current equalized valuation of the abated properties will return to the Ad Valorem Tax Roll as taxable value.

City of Allegan
Maximum Property Tax Rates
Fiscal Year Ended June 30, 2008

Millage Classification	Millage Authorized	Maximum Allowable Millage
Operating	17.5000	16.4884
Library	1.0000	.9420
Library (voted)	.5000	.4939

Source: City of Allegan

City of Allegan
Property Tax Rates
Fiscal Years Ended June 30, 2004 Through 2008

Levy December 1	Fiscal Year Ended June 30	Allocated Operating	Library	Total
2003	2004	16.6114	1.4467	18.0581
2004	2005	16.4884	1.4359	17.9243
2005	2006	16.4884	1.4359	17.9243
2006	2007	16.4884	1.4359	17.9243
2007	2008	16.4884	1.4359	17.9243

Source: City of Allegan

City of Allegan
Property Tax Collections
Fiscal Years Ended June 30, 2004 Through 2008

Levy December 1	Fiscal Year Ended June 30	Tax Levy (1)	Collections to March 1 Following Levy	Percent Collected
2003	2004	2,038,425	1,940,010	95.17%
2004	2005	2,248,889	2,032,671	90.39%
2005	2006	2,542,614	2,439,932	95.96%
2006	2007	3,081,280	2,971,739	96.44%
2007	2008	3,084,918	2,978,918	96.56%

(1) City taxes only. Includes taxes on properties granted tax abatement under Act 198. See "Tax Abatement."

Source: City of Allegan

(UNAUDITED)

**City of Allegan
Ten Largest Taxpayers
Fiscal Year Ended June 30, 2008**

<u>Taxpayer</u>	<u>Principal Product or Service</u>	<u>Taxable Value (1)</u>	<u>% of Total (2)</u>
L Perrigo	Health and beauty aids	\$ 81,063,477	44.85%
Haworth Inc.	Office systems	5,278,788	2.92%
High Point #2 LLC	Apartments	2,553,867	1.41%
High Point Apartments	Apartments	2,327,877	1.29%
Consumers Energy	Utility	1,907,929	1.06%
Data Sales Inc.	Leasing	1,414,800	0.78%
IBM Credit Corporation	Leasing	1,406,400	0.78%
Sterla Properties LLC	Apartments	1,074,539	0.59%
J.H. Packaging	Packaging	1,070,100	0.59%
Charter Communications	Cable utility	1,005,400	0.56%
		<u>\$ 99,103,177</u>	<u>54.83%</u>

(1) Includes the Equivalent Taxable Value of property granted tax abatement under Act 198. See "Tax Abatement."

(2) Based on \$180,736,025, which is City of Allegan's Total Taxable Value for its fiscal year ended June 30, 2008. Includes the equivalent taxable value of property granted tax abatement under Act 198. See "Tax Abatement."

Source: City of Allegan

**City of Allegan
Legal Debt Margin
As of June 30, 2008**

Debt Limit (1)		\$ 21,416,015
Debt Outstanding	\$ 9,409,047	
Less: Exempt Debt	<u>655,000</u>	
		<u>8,754,047</u>
Legal Debt Margin		<u>\$ 12,661,968</u>

(1) 10% of \$214,160,150, which is the City of Allegan's Total SEV for the fiscal year ended June 30, 2008. Includes the SEV of property granted tax abatement under Act 198. See "Tax Abatement."

Source: Municipal Advisory Council of Michigan and City of Allegan

(UNAUDITED)

**City of Allegan
Debt Statement
As of June 30, 2008**

City of Allegan Direct Debt	Gross	Self-Supporting	Net
General Obligation Issues:			
Dated June 23, 2004 (Limited Tax)	\$ 6,230,000	\$ -	\$ 6,230,000
Dated July 29, 2003 (Limited Tax)	332,000	-	332,000
Dated June 1998 (Limited Tax)	206,246	-	206,246
Dated February 1, 1998 (Limited Tax)	1,565,000	-	1,565,000
Subtotal	<u>8,333,246</u>	<u>-</u>	<u>8,333,246</u>
Water Revenue Bonds:			
Dated May 1, 2001	405,000	405,000	-
Dated April 1, 1996	250,000	250,000	-
Subtotal	<u>655,000</u>	<u>655,000</u>	<u>-</u>
MEDC Loan Agreement:			
Dated October 1, 1997	311,509	-	311,509
Dated September 1, 2006	109,292	-	109,292
Subtotal	<u>420,801</u>	<u>-</u>	<u>420,801</u>
Total	<u>\$ 9,409,047</u>	<u>\$ 655,000</u>	<u>\$ 8,754,047</u>

Per Capita Net City of Allegan Direct Debt (1) \$1,890
Percent of Net Direct Debt to Total SEV (2) 4.09%

Overlapping Debt (3)	Gross	City Share As Percent of Gross	Net
Allegan Public Schools	\$ 39,875,795	32.80%	\$ 13,079,261
Allegan Intermediate School District	175,000	6.34%	11,095
Allegan County	<u>9,526,260</u>	<u>4.08%</u>	<u>388,671</u>
Totals	<u>\$ 49,577,055</u>		<u>\$ 13,479,027</u>

Per Capita Net Overlapping Debt (1) \$2,910
Percent of Net Overlapping Debt to Total SEV (2) 6.29%

Per Capita Net Direct and Overlapping Debt (1) \$4,800
Percent of Net Direct and Overlapping Debt to Total SEV (2) 10.38%

(1) Based on City of Allegan's 2000 census population of 4,632.

(2) Based on \$214,160,150 which is City of Allegan's Total SEV for the fiscal year ended June 30, 2008. Includes the SEV of property granted tax abatement under Act 198. See "Tax Abatement."

(3) Overlapping debt is the portion of another taxing unit's debt for which property taxpayers of City of Allegan are liable in addition to debt issued by City of Allegan.

Source: Municipal Advisory Council of Michigan and City of Allegan

(UNAUDITED)

November 18, 2008

To the City Council
City of Allegan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Allegan for the year ended June 30, 2008, and have issued our report thereon dated November 18, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 9, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Allegan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the City of Allegan during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the City's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has not recorded the accumulated cross-over look-back adjustments, associated with the consolidation of the Motor Vehicle and Equipment internal service fund. The sewer and water funds have been cumulatively undercharged by \$13,100 and \$12,100, respectively. Management has determined that the effects of these adjustments are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter associated with the audits for the year ended June 30, 2008.

Other Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Allegan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the City of Allegan as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Allegan's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls and, accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following control deficiency constitutes a material weakness.

The City has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to achieve the objectives of recording revenue and expense accruals, the capitalization and depreciation of capital assets, and the presentation of financial statement disclosures. This is a recurring comment. The City has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

This communication is intended solely for the information and use of the City Council of the City of Allegan and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Sigfried Crandall P.C.